

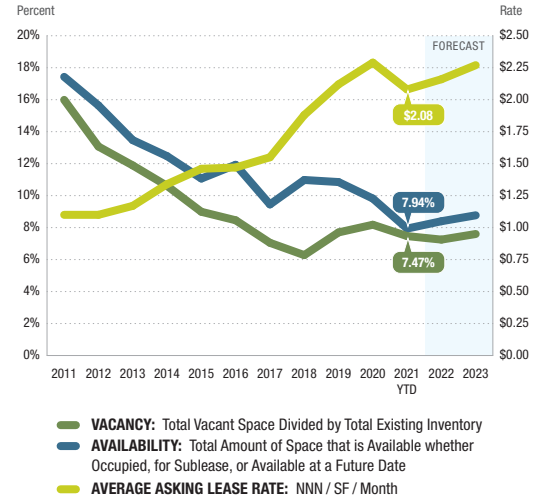
OVERVIEW. The Flex/R&D market in San Diego is driven by the biotech subset which remains strong. Vacancy and availability continue trending downward, and rental rates remain elevated from a long-term perspective. Transaction volume for the first half of 2021 is on par with recent years. Acquisitions of other property types for biotech conversion remains 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 3Q 2021 at 7.47%, a decrease of 1.53 percentage points from 3Q 2020's vacancy rate of 9%. This is an extremely 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 0.5 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 7.94% at the end of 3Q. The diminishing construction pipeline is decreasing the amount of space which is on the market for lease, but not physically unoccupied.

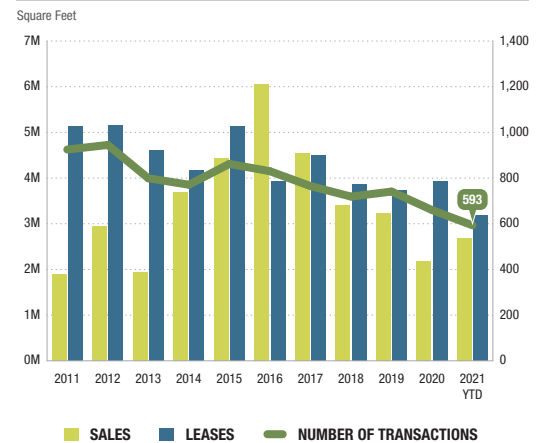
LEASE RATES. The average asking triple net lease rate per square foot per month in San Diego County was \$2.08 at the end of 3Q 2020, which is a negligible 0.5% decrease from 3Q 2020. The average asking lease rate has been on a long-term trend of increases, but dramatic changes in the average in recent history 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 additionally the difference between the rental rates for biotech properties and other Flex/R&D properties is vast. This causes the top-line market statistics to fluctuate somewhat at times.

TRANSACTION ACTIVITY. The combined amount of square feet leased or sold in 3Q totaled 2.3 MSF, a 66.2% increase from the 1.4 MSF transacted in 3Q 2020. There were 1,252,168 SF of Flex/R&D space leased in 173 transactions recorded in 3Q, which was the highest quarterly total by either measurement in the past two years. The top five leases of the quarter all involved biotech properties, while none of the top five sales did. However, the largest sale of the quarter was an acquisition by Longfellow who has been actively pursuing properties for repositioning into biotech. The second-largest acquisition of the quarter is currently being held by an exchange accommodator, but it is rumored that this project is slated for biotech conversion as well. It is little surprise there are no existing biotech properties among the top sales of the quarter. Most of the large institutional owners who hold the majority of these properties are reluctant to sell.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

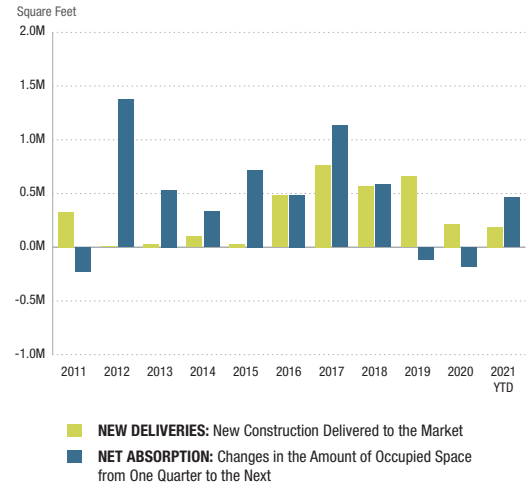
	Change Over Last Quarter	3Q 2021	2Q 2021	3Q 2020	% Change Over Last Year
Vacancy Rate	▲ UP	7.47%	7.30%	9.00%	(16.98%)
Availability Rate	▼ DOWN	7.94%	9.26%	10.72%	(25.92%)
Average Asking Lease Rate	▼ DOWN	\$2.08	\$2.19	\$2.09	(0.48%)
Sale & Lease Transactions	▲ UP	2,308,848	1,695,305	1,389,146	66.21%
Gross Absorption	▲ UP	1,001,201	780,066	596,878	67.74%
Net Absorption	▲ POSITIVE	49,989	40,858	(481,737)	N/A

ABSORPTION. The San Diego Flex R&D market recorded 49,989 SF of positive net absorption in 3Q 2021. The total for the year thus far is 464,537 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 positive net absorption in 3Q came from the Central County area, which is where the majority of the biotech properties are located. All other submarket clusters in the county saw negative net absorption in 3Q, excluding South County which only had a few thousand feet of positive net absorption.

CONSTRUCTION. At the end of 3Q there were 238,942 SF under construction. 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 496,345 SF of Flex / R&D under renovation in the biotech cluster surrounding UCSD. 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 6.6% in August 2021, down from a revised 6.9% in July 2021, and below the year-ago estimate of 10.8%. This compares with an unadjusted unemployment rate of 7.5% for California and 5.3% for the nation during the same period. Over the 12-month period between August 2020 and August 2021, San Diego County employment increased by 59,200 jobs, or 4.4%. With the normal delay in reporting from the California EDD, employment figures from September were unavailable at the time of publishing this report. At the end of September, the 4-week average of initial unemployment claims in the U.S. dropped to 336,000, the lowest figure since the start of the pandemic. The total employment for the U.S. is still 5.3 million jobs fewer than the pre-pandemic level.

NEW DELIVERIES & NET ABSORPTION



Forecast

Leasing activity in 3Q was very strong which should lead to positive net absorption and decreased vacancy in the coming quarters. As vaccination rates increase and COVID hospitalizations decrease, the broader economy will continue to strengthen. Going forward, the competition on the sales side looks to remain fierce across the board for stabilized investment assets, as well as for user or biotech conversion in the submarkets surrounding UCSD.

Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
6790-6885 Flanders Rd. & 6620-6730 Mesa Ridge Rd.	Sorrento Mesa	255,599	\$149,300,000	Longfellow Real Estate Partners	Montana Avenue Capital Partners, LLC
5205-5600 Avenida Encinas	Carlsbad	302,727	\$135,500,000	Carlsbad1 -Make Holding, LLC	Cruzan
9235-9265 Activity Rd. & 9520-9530 Padgett St.	Miramar	160,811	\$40,800,000	Hines	BKM Capital Partners
4181 Ruffin Rd.	Kearny Mesa	189,909	\$35,750,000	Rexford Industrial Realty	IDS Real Estate Group
8225 Aero Dr.	Kearny Mesa	165,528	\$35,250,000	AMLI Residential	Sares-Regis Group

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
4930 Directors Pl.	Sorrento Mesa	163,205	Sept-2021	Sorrento Therapeutics	Healthpeak
5510 Morehouse Dr.	Sorrento Mesa	64,656	Jul-2021	Undisclosed	Phase 3 Real Estate Partners
10240 Flanders Ct.	Sorrento Mesa	64,036	Aug-2021	Undisclosed	Bioscience Properties
10240 Sorrento Valley Rd.	Sorrento Valley	46,816	Sept-2021	Shoreline Biosciences	Longfellow Real Estate Partners
9381 Judicial Dr.	UTC	44,040	Aug-2021	Epic Sciences	Healthpeak

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 3Q2021	Square Feet Available	Availability Rate 3Q2021	Average Asking Lease Rate	Net Absorption 3Q2021	Net Absorption 2021	Gross Absorption 3Q2021	Gross Absorption 2021
Central													
Central City	12	174,781	0	0	17,237	9.86%	29,077	16.64%	\$1.50	0	6,500	0	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	5,000	2.23%	5,000	2.23%	\$1.35	(5,000)	(5,000)	0	0
Kearny Mesa	204	5,569,216	0	0	404,044	7.25%	428,452	7.69%	\$1.67	57,929	8,975	89,396	163,784
Mission Gorge	27	279,740	0	0	18,105	6.47%	30,221	10.80%	\$1.77	(8,817)	(13,557)	6,618	9,398
Rose Canyon/Morena	39	613,738	0	0	9,481	1.54%	15,235	2.48%	\$1.60	958	21,461	1,755	28,078
Sports Arena/Airport	32	418,986	0	0	64,939	15.50%	64,939	15.50%	\$2.61	0	0	0	0
Miramar	223	4,930,251	0	130,510	256,721	5.21%	295,439	5.99%	\$2.18	67,461	93,592	177,218	393,769
Sorrento Mesa	169	7,639,763	0	971,205	907,895	11.88%	843,953	11.05%	\$2.99	(29,555)	24,970	119,950	343,434
Sorrento Valley	106	2,527,260	0	0	272,112	10.77%	219,218	8.67%	\$3.52	(22,077)	(12,476)	126,553	310,296
Torrey Pines/UTC	75	6,582,679	146,368	876,102	362,231	5.50%	269,917	4.10%	\$5.50	84,327	228,701	134,988	354,208
Central County Total	910	28,987,990	146,368	1,977,817	2,317,765	8.00%	2,201,451	7.59%	\$2.60	145,226	353,166	656,478	1,609,467
East County													
El Cajon	78	873,288	25,714	22,164	38,630	4.42%	46,621	5.34%	\$1.20	(10,316)	(28,499)	12,940	21,368
La Mesa/Spring Valley	41	296,056	0	60,000	0	0.00%	0	0.00%	-	8,820	2,280	8,820	11,100
Santee/Lakeside	55	586,728	0	0	17,261	2.94%	9,320	1.59%	\$1.30	643	(4,489)	7,038	13,082
Rural East County	22	95,520	0	0	1,325	1.39%	0	0.00%	\$1.36	(1,325)	(1,325)	1,325	1,325
East County Total	196	1,851,592	25,714	82,164	57,216	3.09%	55,941	3.02%	\$1.25	(2,178)	(32,033)	30,123	46,875
North County													
Escondido	19	139,572	0	0	1,650	1.18%	1,650	1.18%	\$0.50	1,300	1,250	1,300	1,300
Oceanside	33	982,695	0	0	19,025	1.94%	18,500	1.88%	\$1.29	2,878	2,668	4,653	22,696
San Marcos	58	1,109,620	0	0	95,255	8.58%	58,871	5.31%	\$1.15	(24,906)	11,431	18,021	61,858
Vista	64	1,423,627	0	0	243,684	17.12%	324,761	22.81%	\$1.11	38,783	27,899	46,031	94,458
Carlsbad	260	7,011,459	0	0	626,190	8.93%	741,831	10.58%	\$1.38	(69,411)	272,754	160,635	680,657
North Beach Cities	19	158,539	0	0	1,200	0.76%	2,252	1.42%	\$4.38	0	880	0	1,280
Rural North County	19	139,572	0	0	1,650	1.18%	1,650	1.18%	\$0.50	1,300	1,250	1,300	1,300
North County Total	472	10,965,084	0	0	988,654	9.02%	1,149,515	10.48%	\$1.32	(50,056)	318,132	231,940	863,549
I-15 Corridor													
Poway	62	2,235,272	0	0	38,122	1.71%	41,173	1.84%	\$1.20	(999)	(16,904)	4,773	28,774
Rancho Bernardo	99	4,682,527	0	0	361,009	7.71%	348,127	7.43%	\$1.63	(52,806)	(170,571)	48,663	75,179
Scripps Ranch	29	790,245	0	344,000	2,900	0.37%	123,257	15.60%	\$1.49	4,541	19,526	4,541	28,674
I-15 Corridor Total	190	7,708,044	0	344,000	402,031	5.22%	512,557	6.65%	\$1.60	(49,264)	(167,949)	57,977	132,627
South County													
Chula Vista	78	1,387,277	66,860	0	43,384	3.13%	127,144	9.17%	\$1.19	2,761	26	20,183	44,133
National City	25	354,668	0	0	16,019	4.52%	18,130	5.11%	\$1.56	3,500	(9,712)	4,500	10,236
Otay Mesa	7	156,362	0	0	24,246	15.51%	24,246	15.51%	\$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	115	1,984,668	66,860	0	83,649	4.21%	169,520	8.54%	\$1.14	6,261	(6,779)	24,683	57,276
San Diego County Total	1,883	51,497,378	238,942	2,403,981	3,849,315	7.47%	4,088,984	7.94%	\$2.08	49,989	464,537	1,001,201	2,709,794

Lease rates are on a triple-net basis.



Volume Down, Prices up

by **Josh West**

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As we wrap up the third quarter of 2021, “normal” life seems to be coming back into the picture. With market confidence as strong as ever, vacancy has continued to plummet and rental rates remain high. This has proved to create problems for tenants and owner/users in their search for quality space.

The low vacancy has reduced the volume of leases/deals completed as many tenants are deciding to renew in place due to the lack of options. The I-15 Corridor, for example, finished third quarter 2021 at an all-time low vacancy rate of 0.51%. Much of this demand is driven by e-commerce business. 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 resulting from increased logistics demand across the board.

Due to high demand and limited options, lease rates and sale prices have continued to soar. The average lease rate in the San Diego market is \$1.09 per square foot NNN while the Central County average lease rate is closer to \$1.33 per square foot NNN. As of now, there does not seem to be an end in sight for the demand. As such, developers are scrambling to get quality product on the market as soon as possible. Central County currently has approximately 464,900 square feet of proposed development and the South Bay has closer to 1.7 million square feet.

The overall market is flush with capital and either industrial or multi-family are considered the safest places to put your money. Cap rates for quality product in both sectors are below 5% and in some industrial cases below 4%. The low cap rates are also partially driven by the low interest rates currently offered.

Overall, the market is healthy and will continue to do well for the foreseeable future. New product will relieve the pressure and will allow occupiers to move within the inventory base. Blue skies ahead!

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

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