

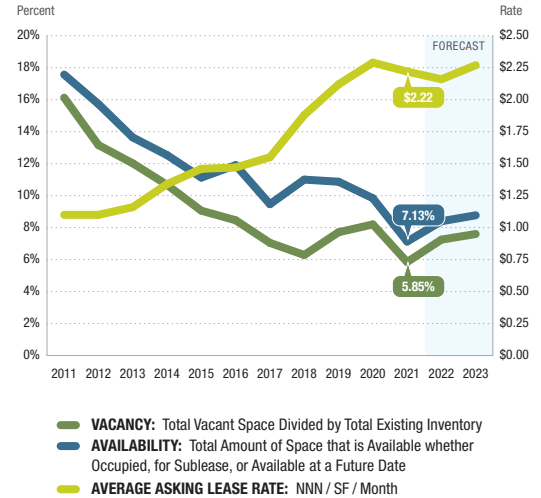
OVERVIEW. The Flex/R&D market in San Diego is driven by the biotech subset which remains strong. Vacancy and availability continue trending downward, and rental rates remain elevated from a long-term perspective. Transaction volume in 2021 reached a multi-year high. Acquisitions of other property types 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 moves back towards normalization, additional business activity will be a booster shot to market fundamentals in this sector.

VACANCY & AVAILABILITY. Direct/sublease space (unoccupied) finished 4Q 2021 at 5.85%, a decrease of 2.35 percentage points from 4Q 2020's vacancy rate of 8.2%. 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 1.28 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 7.13% at the end of 4Q. The diminishing construction pipeline is decreasing the amount of space which is on the market for lease, but not physically unoccupied.

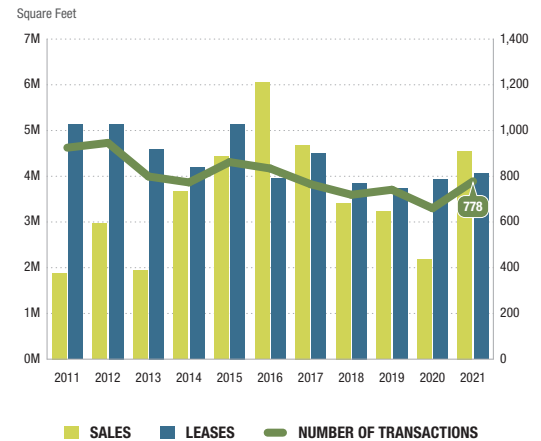
LEASE RATES. The average asking triple net lease rate per square foot per month in San Diego County was \$2.22 at the end of 4Q 2021, which is a 3% decrease from 4Q 2020. The average asking lease rate has been on a long-term trend of increases, but dramatic changes in the average in recent history are likely due to a change in the composition of available space. Over the past five years the countywide asking rental rate has increased an average of 8.89% 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 overall average market statistics to fluctuate somewhat at times.

TRANSACTION ACTIVITY. The combined amount of square feet leased or sold in 4Q totaled 2.4 MSF, a 31.4% increase from the 1.8 MSF transacted in 4Q 2020. There were 4,054,975 SF of Flex/R&D space leased in 778 transactions recorded in 2021, which was the highest annual total by either measurement of the past four years. Four of the top five sales of the quarter were located in Sorrento Mesa, as were two of the top five leases. Sorrento Mesa has long been dominated by Qualcomm, one of two Fortune 500 companies headquartered in San Diego. As Qualcomm's massive footprint in the submarket has receded in recent years, San Diego's biotech market has picked up the slack. Sorrento has garnered so much of the sales volume because of its available opportunities, as opposed to the other primary biotech submarkets of Torrey Pines and UTC, where 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



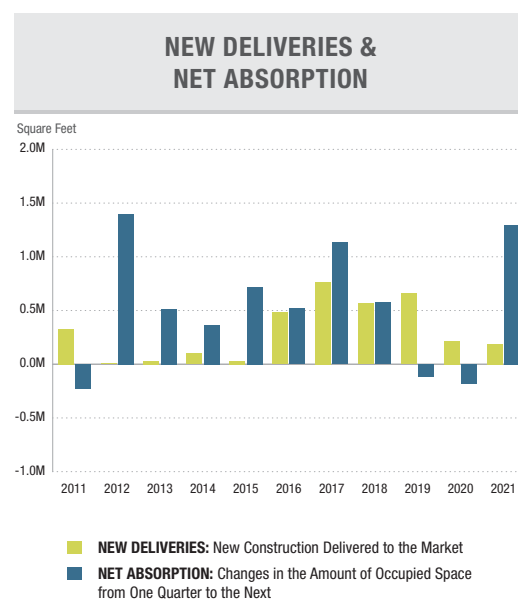
Market Statistics

	Change Over Last Quarter	4Q 2021	3Q 2021	4Q 2020	% Change Over Last Year
Vacancy Rate	▼ DOWN	5.85%	7.19%	8.20%	(28.71%)
Availability Rate	▼ DOWN	7.13%	7.91%	9.84%	(27.55%)
Average Asking Lease Rate	▲ UP	\$2.22	\$2.08	\$2.29	(3.06%)
Sale & Lease Transactions	▼ DOWN	2,367,983	2,677,641	1,802,062	31.40%
Gross Absorption	▲ UP	1,239,360	1,040,587	1,079,695	14.79%
Net Absorption	▲ POSITIVE	698,911	175,733	397,658	N/A

ABSORPTION. The San Diego Flex/R&D market recorded 698,911 SF of positive net absorption in 4Q 2021. The total for the year was 1,295,989 SF of positive net absorption, the largest growth of the market's total tenant footprint since 2012. 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. Many of these buildings, which lost their tenants and were acquired for biotech conversion, have now been occupied by new tenants as conversions are completed. The largest portion of positive net absorption in 2021 came from the Central County area, which is where the majority of the biotech properties are located.

CONSTRUCTION. Last year 188,641 SF of new construction was delivered which marks the lowest annual total since 2015. At the end of 2021 there were just 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. These conversions do not show up in the new construction totals. The dividing line between office properties and flex properties is becoming less defined, especially in Sorrento Mesa and Sorrento Valley where there is more capital than ever chasing properties than can be converted for lab space.

EMPLOYMENT. The unemployment rate in San Diego County was 4.6% in November 2021, down from a revised 5.3% in October 2021, and below the year-ago estimate of 6.8%. This compares with an unadjusted unemployment rate of 5.4% for California and 3.9% for the nation during the same period. Over the 12-month period between November 2020 and November 2021, San Diego County employment increased by 64,900 jobs, an increase of 4.6%. 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 U.S. unemployment rate fell below 4% for the first time since February 2020. The total employment for the U.S. is still 3.6 million jobs fewer than the pre-pandemic level.



Forecast

Leasing and sales activity in 2021 was very strong which should lead to positive net absorption and decreased vacancy in the coming quarters. 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. Flex R&D properties typically house companies with less employee density than office buildings, but more than industrial buildings. The Flex R&D sector has had minimal setbacks from the pandemic, even so, as Covid restrictions pull back in 2022, this will add to the strength of the market.

Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
10398-10445 Pacific Center Ct.	Sorrento Mesa	504,750	\$576,000,000	Harrison Street Capital Sterling Bay	City Office REIT
9940 & 9950 Barnes Canyon Rd.	Sorrento Mesa	139,807	\$115,000,000	BioMed Realty	La Jolla Management Company
3910-4010 Sorrento Valley Blvd., Et Al	Sorrento Valley	178,514	\$87,300,000	Oxford Properties Group	Manulife Investment Management
10450 Pacific Center Ct.	Sorrento Mesa	134,000	\$63,000,000	Lincoln Property Company	Crown Realty and Development
5791 Van Allen Way	Carlsbad	67,000	\$50,000,000	Fisher Scientific	Mararisk Carlsbad, LLC

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
11220 El Camino Real	Del Mar Heights	222,000	Nov-2021	Becton, Dickinson and Co.	Breakthrough Properties
9514 Towne Centre Dr.	UTC	70,000	Oct-2021	Undisclosed	Kilroy Realty
5785 Oberlin Dr.	Sorrento Mesa	65,878	Dec-2021	Encodia	Harrison Street Capital
9727 Pacific Heights Blvd.	Sorrento Mesa	47,929	Nov-2021	Undisclosed	The Irvine Company
10955 Vista Sorrento Pkwy.	Del Mar Heights	47,300	Oct-2021	Janux	Breakthrough 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 4Q2021	Square Feet Available	Availability Rate 4Q2021	Average Asking Lease Rate	Net Absorption 4Q2021	Net Absorption 2021	Gross Absorption 4Q2021	Gross Absorption 2021
Central													
Central City	12	170,791	0	0	17,237	10.09%	29,077	17.02%	\$2.00	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	0	(5,000)	0	0
Kearny Mesa	205	5,589,664	0	0	290,406	5.20%	368,086	6.59%	\$1.69	91,126	122,613	101,188	282,605
Mission Gorge	27	279,740	0	0	17,310	6.19%	27,204	9.72%	\$1.82	795	(12,762)	3,535	12,933
Rose Canyon/Morena	38	610,908	0	0	11,566	1.89%	12,716	2.08%	\$1.58	(2,085)	19,376	3,708	31,786
Sports Arena/Airport	32	418,986	0	0	64,939	15.50%	73,039	17.43%	\$2.17	0	0	0	0
Miramar	223	4,911,548	0	130,510	183,806	3.74%	352,665	7.18%	\$2.20	45,218	166,507	114,830	499,963
Sorrento Mesa	169	7,519,849	0	1,192,073	704,979	9.37%	567,842	7.55%	\$2.96	217,635	227,886	310,390	658,443
Sorrento Valley	106	2,532,510	0	0	315,752	12.47%	162,860	6.43%	\$3.52	(56,400)	(56,116)	71,996	363,515
Torrey Pines/UTC	75	6,584,611	146,368	876,102	202,078	3.07%	242,103	3.60%	\$6.31	111,764	390,786	173,711	549,325
Central County Total	910	28,870,183	146,368	2,198,685	1,813,073	6.28%	1,840,592	6.34%	\$2.70	408,053	859,790	779,358	2,405,070
East County													
El Cajon	78	873,288	25,714	22,164	28,928	3.31%	46,413	5.16%	\$1.19	379	(18,797)	9,941	31,309
La Mesa/Spring Valley	40	291,356	0	60,000	0	0.00%	0	0.00%	-	0	2,280	0	11,100
Santee/Lakeside	55	586,728	0	0	5,508	0.94%	0	0.00%	\$1.29	5,358	7,264	10,866	23,948
Rural East County	22	95,520	0	0	0	0.00%	0	0.00%	\$1.36	0	0	0	0
East County Total	195	1,846,892	25,714	82,164	34,436	1.86%	46,413	2.48%	\$1.23	5,737	(9,253)	20,807	66,357
North County													
Escondido	81	766,902	0	0	57,288	7.47%	69,705	9.09%	\$1.10	(7,849)	(33,118)	3,825	21,031
Oceanside	33	989,188	0	0	17,250	1.74%	74,964	7.58%	\$1.24	1,775	4,443	1,775	24,471
San Marcos	57	1,086,139	0	0	44,279	4.08%	41,979	3.86%	\$1.14	41,327	62,407	45,227	112,628
Vista	64	1,423,627	0	0	262,587	18.44%	342,629	24.07%	\$1.23	(18,903)	8,996	4,313	98,771
Carlsbad	262	7,150,061	0	0	432,851	6.05%	645,447	9.03%	\$1.47	172,500	466,093	202,764	897,612
North Beach Cities	20	168,171	0	0	4,032	2.40%	4,032	2.40%	\$4.82	(2,832)	(1,952)	1,200	2,480
Rural North County	19	139,572	0	0	1,650	1.18%	1,650	1.18%	\$0.50	0	1,250	0	1,300
North County Total	536	11,723,660	0	0	819,937	6.99%	1,180,406	10.07%	\$1.42	186,018	508,119	259,104	1,158,293
I-15 Corridor													
Poway	62	2,114,628	0	0	35,236	1.67%	44,103	2.09%	\$1.19	1,443	(14,018)	1,443	30,217
Rancho Bernardo	99	4,685,640	0	0	256,145	5.47%	339,276	7.24%	\$1.64	104,864	(65,707)	130,753	205,932
Scripps Ranch	29	790,243	0	344,000	26,633	3.37%	107,158	13.56%	\$1.49	(23,733)	(4,207)	9,678	38,352
I-15 Corridor Total	190	7,590,511	0	344,000	318,014	4.19%	490,537	6.46%	\$1.61	82,574	(83,932)	141,874	274,501
South County													
Chula Vista	78	1,387,277	66,860	0	31,359	2.26%	142,310	9.79%	\$1.51	3,061	12,051	24,749	68,882
National City	25	354,668	0	0	0	0.00%	0	0.00%	\$1.66	13,468	6,307	13,468	28,037
Otay Mesa	7	156,362	0	0	24,246	15.51%	24,246	15.51%	\$0.69	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	55,605	2.80%	166,556	8.12%	\$1.26	16,529	21,265	38,217	99,826
San Diego County Total	1,946	52,015,914	238,942	2,624,849	3,041,065	5.85%	3,724,504	7.13%	\$2.22	698,911	1,295,989	1,239,360	4,004,047

Lease rates are on a triple-net basis.



All Signs Point to Another Good Year

by **Randy LaChance**

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Even though we have been in the middle of a pandemic for all of 2021, we have seen three factors influencing the industrial markets: 1) a quickly recovering economy with annual GDP growth estimated to be above 4%, 2) a fundamental change from spending at brick-and-mortar retail stores to online shopping, and 3) supply chain disruptions requiring companies that import their goods to increase their inventories to be able to meet demand.

2021 was one of the best years ever for industrial markets nationwide, and San Diego was no exception. All three key indicators (lease rates, owner-user pricing, and investment sales) have hit all-time record price points, and with limited availability and continued strong demand, there is no reason to believe this run will end in 2022. In 2021, we saw the average asking industrial lease rate increase by 6%, but some submarkets and product types experienced increases in excess of 20%. Investment cap rates compressed below 4% for high quality industrial property, as it became a preferred product type for both individual and institutional investors. Owner-user prices increased across all submarkets with some buildings selling for more than \$300 per square foot. We also saw an increase in speculative purchases of second-generation buildings with plans to redevelop sites for distribution product, resulting in investors paying over \$80 per square foot in land value.

Gross leasing activity exceeded 9.6 million square feet, which is the third highest in the last ten years. There was over 4.5 million square feet of new product delivered during the year, most of which was leased or sold prior to completion. Net absorption topped 7 million square feet, which is more than the previous seven years combined.

The vacancy rate countywide fell to 2.3% as the year ended, and with limited land available and only 2.1 million square feet currently under construction, we should see another year of strong rent growth as demand continues to outpace supply.

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.