

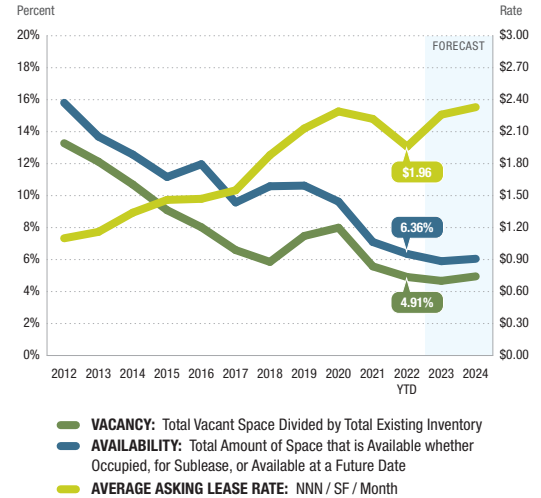
OVERVIEW. The Flex/R&D market in San Diego is driven by the biotech subset which remains strong. Vacancy and availability continue trending downward, and rental rates remain elevated from a long-term perspective. Sales activity remains steady, while the leasing velocity slowed in 2Q. Construction is trending upwards after a lull the last two years. Net absorption was positive for the seventh consecutive quarter.

VACANCY & AVAILABILITY. Direct/sublease space (unoccupied) finished 2Q 2021 at 4.91%, a decrease of 0.26% percentage points from 1Q 2021's vacancy rate of 5.17%. 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 1.45 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 6.36% at the end of 2Q. All but one of the properties under construction are released. This reduces the amount of space which is on the market for lease, but not physically unoccupied.

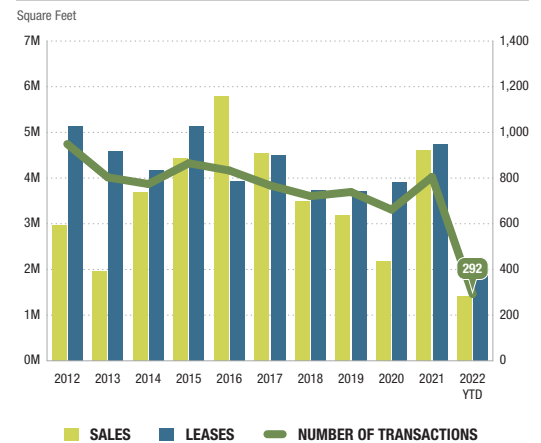
LEASE RATES. The average asking triple net lease rate per square foot per month in San Diego County was \$1.96 at the end of 2Q 2022, which is a 10.5% decrease from 2Q 2021. The average asking lease rate has been on a long-term trend of increases, but dramatic changes in the average in recent history 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 5.5% 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 periodically.

TRANSACTION ACTIVITY. The combined amount of square feet leased or sold in 2Q totaled 1.4 MSF, a 14.4% decrease from the 1.7 MSF transacted in 2Q 2021. There were 1,043,190 SF of Flex/R&D space leased in 89 transactions recorded in 2Q. The total area leased was almost exactly in line with the average of the past five years, which was 1,022,506 SF. However, the number of leases recorded was far below the five-year average of 157 transactions per quarter. This mirrored a trend seen in the industrial market where there have been fewer but larger lease transactions. The 2Q 2022 sales volume totaled \$131 million, the second lowest quarter in the past two years. Clarion Partners/RAF Pacifica Group showed up as a buyer in the largest Flex/R&D transaction this quarter. The wave of capital chasing biotech conversions in San Diego continues. Up until recently, biotech acquisitions in San Diego were nearly always bought by either Alexandria, BioMed, or HCP (Healthpeak.) Over the past few years, the buyer pool has grown with new players showing up in the largest sales every quarter.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



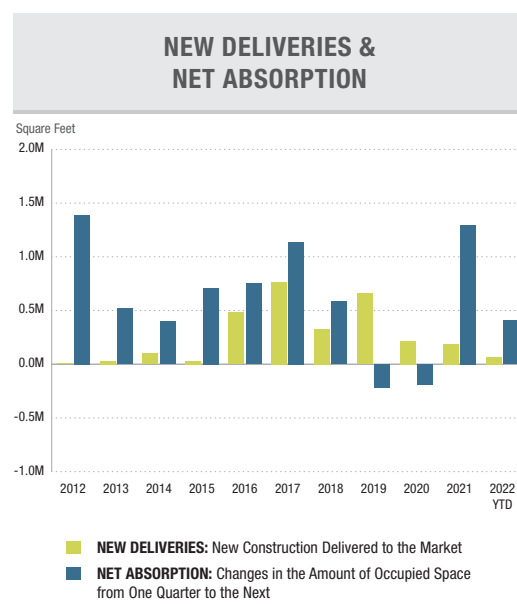
Market Statistics

	Change Over Last Quarter	2Q 2022	1Q 2022	2Q 2021	% Change Over Last Year
Vacancy Rate	▼ DOWN	4.91%	5.17%	7.16%	(31.37%)
Availability Rate	▼ DOWN	6.36%	6.57%	8.96%	(29.08%)
Average Asking Lease Rate	▼ DOWN	\$1.96	\$2.14	\$2.19	(10.50%)
Sale & Lease Transactions	▼ DOWN	1,435,474	1,895,364	1,676,606	(14.38%)
Gross Absorption	▼ DOWN	819,056	899,176	779,983	5.01%
Net Absorption	▲ POSITIVE	136,327	271,903	13,170	N/A

ABSORPTION. The San Diego Flex R&D market recorded 136,327 SF of positive net absorption in 2Q 2022. Over the past 18 months there has been a total of 1.7 MSF of positive absorption which more than makes up for the 408,000 SF of negative net absorption seen in 2019 and 2020. 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. This trend should continue in the coming quarters.

CONSTRUCTION. At the end of 1Q 2022 there was 1 MSF 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. There is an additional half a million square feet currently under renovation across the county, and that number will rise in the coming quarters. Flex R&D construction continues to be focused in and around the biotech core, with 82% of under-construction properties currently in the Central County area.

EMPLOYMENT. The unemployment rate in San Diego County was 2.7% in May 2022, down from a revised 3.0% in April 2022, and below the year-ago estimate of 6.6%. This compares with an unadjusted unemployment rate of 3.4% for California and 3.4% for the nation during the same period. Over the 12-month period between May 2021 and May 2022, San Diego County employment increased by 83,900 jobs, an increase of 5.9%. With the normal delay in reporting from the California EDD, employment figures from June were unavailable at the time of publishing this report. After 27 months, the total employment figure for San Diego County finally exceeded the pre-pandemic level in 2Q.



Forecast

Going forward, the competition on the sales side looks to remain fierce across the board for stabilized investment assets, as well as for user sales or biotech conversions in the submarkets surrounding UCSD. Sales prices are increasing rapidly, which will place upward pressure on rental rates, as owners strive to maintain yield levels. There are concerns that the supply of biotech conversions is going to outpace tenant demand. The biotech sector is heavily reliant upon large capital infusions, and this capital will be more difficult to source during an economic downturn.

Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
1950 Camino Vida Roble	Carlsbad	121,541	\$54,000,000	Clarion Partners / RAF Pacifica Group	K Associates / RAF Pacifica Group
4174-4206 Sorrento Valley Blvd.	Sorrento Valley	91,669	\$48,000,000	Breakthrough Properties	Hill Properties
5550 Oberlin Dr.	Sorrento Mesa	22,319	\$15,000,000	BioMed Realty	Multilateral Partners, LLC
5931 Priestly Dr.	Carlsbad	52,777	\$14,000,000	Luminous Capital Mgmt.	Greene Properties
9245-9265 Dowdy Dr.	Miramar	64,301	\$13,900,000	LOBCM Dowdy Owner, LLC	Pacific Mira Este Spe, LLC

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
5966 La Place Ct.	Carlsbad	68,639	Apr-2022	MaxLinear	Brookwood Financial Partners
3530 John Hopkins Ct.	Torrey Pines	44,681	Apr-2022	Immunitybio	Alexandria RE Equities
7420 Carroll Rd.	Miramar	44,334	May-2022	BioLegend	Davlyn Investments
9520 Towne Centre Dr.	UTC	33,970	May-2022	Undisclosed	(Sublease)
10350 Barnes Canyon Rd.	Sorrento Mesa	29,038	May-2022	AlivaMab Discovery Services	USE Credit Union

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 2Q2022	Square Feet Available	Availability Rate 2Q2022	Average Asking Lease Rate	Net Absorption 2Q2022	Net Absorption 2022	Gross Absorption 2Q2022	Gross Absorption 2022
Central													
Central City	12	170,791	0	0	22,542	13.20%	31,904	18.68%	\$2.10	(2,478)	(5,305)	0	0
East City	2	26,892	346,128	0	0	0.00%	0	0.00%	-	0	0	0	0
Southeast City	22	240,994	0	0	0	0.00%	0	0.00%	\$1.69	0	5,000	0	5,000
Kearny Mesa	203	5,314,382	0	0	225,892	4.25%	371,731	6.99%	\$1.62	(3,275)	(66,486)	61,075	102,069
Mission Gorge	27	279,685	0	0	0	0.00%	18,200	6.51%	\$1.86	23,790	17,310	23,790	27,030
Rose Canyon/Morena	39	636,045	0	0	25,763	4.05%	16,615	2.61%	\$1.56	(10,499)	(14,197)	11,071	22,637
Sports Arena/Airport	32	418,986	0	0	64,939	15.50%	68,889	16.44%	\$2.17	0	0	0	0
Miramar	223	4,896,896	0	118,750	229,497	4.69%	332,680	6.79%	\$2.14	(39,961)	(45,691)	52,099	117,188
Sorrento Mesa	167	7,349,782	163,205	1,079,959	531,310	7.23%	524,548	6.98%	\$2.80	45,989	146,797	153,922	306,195
Sorrento Valley	108	2,564,299	0	0	188,431	7.35%	190,138	7.41%	\$2.92	48,423	127,321	117,388	235,866
Torrey Pines/UTC	75	6,586,401	331,368	717,666	161,699	2.46%	369,330	5.34%	\$6.95	(18,056)	40,379	21,746	110,036
Central County Total	910	28,485,153	840,701	1,916,375	1,450,073	5.09%	1,924,035	6.56%	\$2.39	43,933	205,128	441,091	926,021
East County													
El Cajon	78	871,402	47,878	0	17,956	2.06%	32,062	3.49%	\$1.21	9,271	10,972	9,271	20,243
La Mesa/Spring Valley	41	294,815	0	60,000	4,135	1.40%	5,923	2.01%	-	(3,459)	(4,135)	0	0
Santee/Lakeside	55	586,728	0	0	26,300	4.48%	26,300	4.48%	\$1.38	(20,940)	(20,792)	0	5,788
Rural East County	22	95,520	0	0	0	0.00%	0	0.00%	\$1.36	0	0	0	0
East County Total	196	1,848,465	47,878	60,000	48,391	2.62%	64,285	3.39%	\$1.27	(15,128)	(13,955)	9,271	26,031
North County													
Escondido	81	769,073	0	0	20,441	2.66%	56,220	7.31%	\$1.16	(9,062)	36,847	0	49,874
Oceanside	33	990,106	0	0	16,944	1.71%	78,614	7.94%	\$1.37	(16,080)	306	0	17,250
San Marcos	57	1,041,139	0	0	48,768	4.68%	59,557	5.72%	\$1.26	(9,591)	(4,489)	4,299	11,584
Vista	64	1,424,201	0	0	227,068	15.94%	126,547	8.89%	\$1.57	130,131	35,519	141,158	143,387
Carlsbad	264	7,197,543	0	0	361,420	5.02%	602,526	8.37%	\$1.47	14,236	71,431	150,490	306,948
North Beach Cities	19	166,302	0	0	2,910	1.75%	3,600	2.16%	\$3.78	1,122	1,122	2,252	2,252
Rural North County	19	139,572	0	0	4,600	3.30%	4,600	3.30%	\$1.00	0	(2,950)	0	0
North County Total	537	11,727,936	0	0	682,151	5.82%	931,664	7.94%	\$1.49	110,756	137,786	298,199	531,295
I-15 Corridor													
Poway	62	2,110,914	0	0	31,423	1.49%	53,645	2.54%	\$1.48	5,503	3,813	26,548	26,548
Rancho Bernardo	99	4,706,522	0	0	231,066	4.91%	214,655	4.56%	\$1.69	(255)	25,079	25,803	66,758
Scripps Ranch	29	794,196	145,000	100,000	10,590	1.33%	108,256	11.53%	\$1.83	(4,337)	16,043	4,458	24,838
I-15 Corridor Total	190	7,611,632	145,000	100,000	273,079	3.59%	376,556	4.85%	\$1.67	911	44,935	56,809	118,144
South County													
Chula Vista	84	1,495,429	0	0	73,424	4.91%	42,044	2.81%	\$1.59	6,880	25,312	10,535	89,344
National City	25	354,668	0	0	12,822	3.62%	15,072	4.25%	\$1.73	(11,776)	(12,822)	0	0
Otay Mesa	7	156,362	0	0	2,400	1.53%	2,400	1.53%	\$0.71	751	21,846	3,151	27,397
South San Diego	5	86,361	0	0	0	0.00%	0	0.00%	-	0	0	0	0
South County Total	121	2,092,820	0	0	88,646	4.24%	59,516	2.84%	\$1.30	(4,145)	34,336	13,686	116,741
San Diego County Total	1,954	51,766,006	1,033,579	2,076,375	2,542,340	4.91%	3,356,056	6.36%	\$1.96	136,327	408,230	819,056	1,718,232

Lease rates are on a triple-net basis.

An Unstoppable Force Meets an Immovable Object

by Alex Jize and Chris Moussa



Alex Jize

VICE PRESIDENT / PARTNER
SAN DIEGO
858.458.3361
ajize@voitco.com
Lic. #01947389



Chris Moussa

ASSOCIATE
SAN DIEGO
858.458.3321
cmoussa@voitco.com
Lic. #02111997

What happens when an unstoppable force meets an immovable object? We're about to find out in the San Diego industrial market. Twelve years into the current real estate cycle, we are starting to see market conditions emerge that could begin to slow down the rapid price appreciation that we've seen over the last 18 months. Although the fundamentals are in place to help protect the industrial market from a major correction, the broader economic environment could start to impact the market.

The San Diego County industrial market has been an unstoppable force for several years now. Surging demand combined with a lack of inventory have driven the market. These have led to all-time-high property valuations, with rent growth following suit. Since the start of 2021, industrial property values have appreciated nearly 50% in San Diego County and vacancy rates have reached 2.6% county wide. These statistics illustrate just how strong demand has been. The recent economic factors of record-low interest rates and government stimulus have undoubtedly helped fuel the market.

The immovable object that the market is beginning to run into comes in the form of rising interest rates that are being used to combat decades-high levels of inflation. Wage growth, the increased costs of materials, and record gas prices, among several other factors, are driving inflation numbers not seen since 1981. In response, the Fed is raising interest rates as rapidly as possible while trying to avoid a recession. This has increased the cost of capital for both investors and owner-users.

With GDP growth at -1.6% in the first quarter of this year, it is possible that we will soon enter into a recession, by definition. A recession is defined as two consecutive quarters of negative GDP growth, which we may be on pace for after this quarter's economic data is released. Outside of the negative GDP growth caused by the pandemic in Q2-Q4 of 2020, we have not had any quarters of negative GDP growth since 2008 through 2009.

Going into the second half of the year, we will begin to see if these market dynamics have any impact on the fundamentally solid industrial market in San Diego. Common issues in downturns, such as overdevelopment and excess inventory, will not be a factor as development is currently limited outside of South County. Instead, we will watch to see if the broader economic conditions will be able to slow down the incredible momentum of the San Diego industrial real estate market.

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.

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