

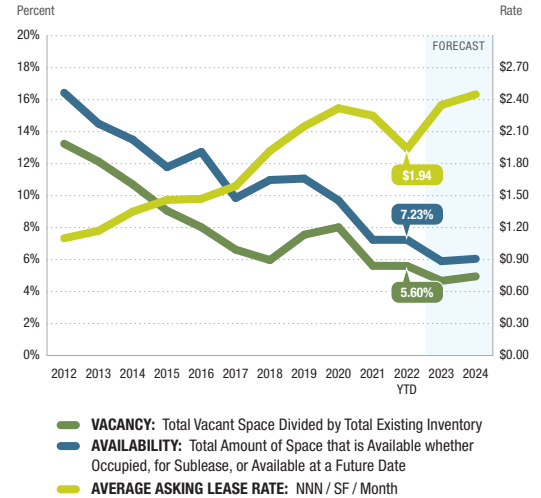
OVERVIEW. The Flex/R&D market in San Diego is driven by the biotech subset which remains strong. Vacancy increased in 3Q, but remains well below last year's level, and significantly below historic norms. Rental rates remain elevated from a long-term perspective. Sales activity remains robust, while the leasing velocity slowed in 3Q. 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 3Q 2022 at 5.60%, a decrease of 142 basis points from 3Q 2021's vacancy rate of 7.02%. 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 1.6 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 7.23% at the end of 3Q. The availability rate saw a 5.3% decrease from the prior year, far less than the 20.2% decrease in vacancy during the same period.

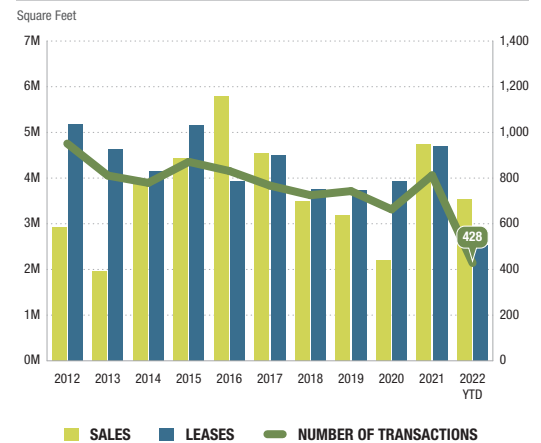
LEASE RATES. The average asking triple net lease rate per square foot per month in San Diego County was \$1.94 at the end of 3Q 2022, which is an 8.5% decrease from 3Q 2021. The average asking lease rate has been on a long-term trend of increases, but dramatic changes in the average in recent history 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 4.8% 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 3Q totaled 2.2 MSF, a 17.1% decrease from the 2.7 MSF transacted in 3Q 2021. There were 553,365 SF of Flex/R&D space leased in 85 transactions recorded in 3Q. These figures were far below the five-year averages of 153 transactions, and 1.0 MSF leased per quarter. The 3Q 2022 sales volume totaled \$501 million, the third quarter of the last four with more than half a billion dollars in sales. Prior to this, it had been four years since the quarterly sales volume topped half a billion dollars. 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. Alexandria was on the seller's side of two of the largest deals of the quarter. The largest biotech ownership groups have shown an increasing willingness to divest of non-core assets in the San Diego market.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



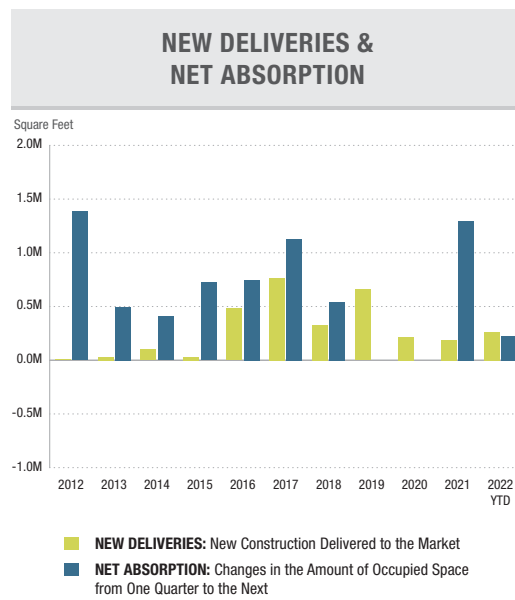
Market Statistics

	Change Over Last Quarter	3Q 2022	2Q 2022	3Q 2021	% Change Over Last Year
Vacancy Rate	▲ UP	5.60%	5.26%	7.02%	(20.17%)
Availability Rate	▲ UP	7.23%	6.70%	7.64%	(5.27%)
Average Asking Lease Rate	▼ DOWN	\$1.94	\$2.02	\$2.12	(8.49%)
Sale & Lease Transactions	▲ UP	2,231,653	1,906,124	2,691,384	(17.08%)
Gross Absorption	▼ DOWN	786,787	821,144	1,039,955	(24.34%)
Net Absorption	▲ POSITIVE	267,322	(146,843)	176,960	N/A

ABSORPTION. The San Diego Flex/R&D market recorded 267,322 SF of positive net absorption in 3Q 2022. Since the start of 2021, there has been a total of 1.5 MSF of positive absorption which more than makes up for the 369,000 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 3Q 2022 there were 676,000 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 are an additional 199,000 SF currently under renovation across the county, and that trend will continue. 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. Many new developments are positioned towards both office and lab users to fill their new buildings.

EMPLOYMENT. The unemployment rate in San Diego County was 3.4% in August 2022, up from a revised 3.1% in July 2022, and below the year-ago estimate of 6.5%. This compares with an unadjusted unemployment rate of 4.1% for California and 3.8% for the nation during the same period. Over the 12-month period between August 2021 and August 2022, San Diego County employment increased by 59,600 jobs, an increase of 4.1%. With the normal delay in reporting from the California EDD, employment figures from September were unavailable at the time of publishing this report. For the nation as a whole, the unemployment rate declined to 3.3% in September, demonstrating that the labor market remains tight.



Forecast

Going forward, the competition on the sales side looks to remain strong 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 not only will this capital will be more difficult to source during an economic downturn, but also it will demand higher yields in response to rising interest rates.

Significant Transactions

Sales * Voit Real Estate Services Deal

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
16397-16409 W. Bernardo Dr.	Rancho Bernardo	809,769	\$445,000,000	Apple	Swift RE Partners
7330 & 7360 Carroll Rd.	Miramar	81,444	\$60,000,000	GI Partners	Alexandria RE Equities
13112 Evening Creek Dr.	Rancho Bernardo	109,780	\$55,500,000	Cush Enterprises	Alexandria RE Equities
6350 Palomar Oaks Ct.	Carlsbad	44,630	\$11,600,000	6350 Palomar Oaks, LLC	NEO Tech
9605 Kearny Villa Rd. *	Miramar	15,441	\$6,250,000	ATZ Investments, LLC*	Poki One N Half

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
6055 Lusk Blvd.	Sorrento Mesa	94,230	Sep-2022	Crinetics Pharmaceuticals	Ascendas-Singbridge
5717 Pacific Center Blvd.	Sorrento Mesa	54,232	Jul-2022	Maravai Life Sciences	BioMed Realty
10636 Scripps Summit Ct.	Scripps Ranch	38,600	Aug-2022	Fermenich	Phase 3 Real Estate
5785 Oberlin Dr.	Sorrento Mesa	31,939	Aug-2022	Undisclosed	(Sublease)
9505 Chesapeake Dr.	Kearny Mesa	25,139	Aug-2022	CA Botana International	Hazard Construction

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 3Q2022	Square Feet Available	Availability Rate 3Q2022	Average Asking Lease Rate	Net Absorption 3Q2022	Net Absorption 2022	Gross Absorption 3Q2022	Gross Absorption 2022
Central													
Central City	12	170,791	0	0	20,064	11.75%	31,904	18.68%	\$2.10	2,478	(2,827)	2,478	2,478
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	69,720	28.93%	69,720	28.93%	\$1.69	(69,720)	(64,720)	0	5,000
Kearny Mesa	204	5,269,108	0	0	202,321	3.84%	300,548	5.70%	\$1.52	23,571	(42,915)	46,613	148,682
Mission Gorge	27	279,105	0	0	3,700	1.33%	20,500	7.34%	\$2.04	(3,700)	13,610	0	27,030
Rose Canyon/Morena	39	636,045	0	0	11,397	1.79%	22,845	3.59%	\$1.62	14,366	169	21,728	44,365
Sports Arena/Airport	32	418,986	0	0	64,939	15.50%	64,939	15.50%	-	0	0	0	0
Miramar	225	4,943,621	0	118,750	230,681	4.67%	365,418	7.39%	\$2.34	(1,184)	(46,875)	33,865	151,053
Sorrento Mesa	168	7,353,568	0	1,118,466	675,029	9.18%	569,463	7.74%	\$3.00	241,430	225,256	310,390	553,705
Sorrento Valley	111	2,684,678	0	0	239,653	8.93%	266,340	9.92%	\$2.89	5,722	133,043	39,832	275,698
Torrey Pines/UTC	76	6,729,723	185,000	717,666	207,896	3.09%	475,187	6.87%	\$6.95	100,171	80,802	146,368	256,404
Central County Total	918	28,753,511	531,128	1,954,882	1,725,400	6.00%	2,186,864	7.47%	\$2.31	313,134	295,543	601,274	1,464,415
East County													
El Cajon	81	919,280	0	0	17,956	1.95%	17,956	1.95%	\$1.22	47,878	58,850	47,878	68,121
La Mesa/Spring Valley	41	294,815	0	60,000	4,135	1.40%	4,135	1.40%	-	0	(4,135)	0	0
Santee/Lakeside	54	571,961	0	0	14,272	2.50%	30,128	5.27%	\$1.37	12,028	(8,764)	12,720	18,508
Rural East County	22	95,520	0	0	0	0.00%	0	0.00%	-	0	0	0	0
East County Total	198	1,881,576	0	60,000	36,363	1.93%	52,219	2.78%	\$1.27	59,906	45,951	60,598	86,629
North County													
Escondido	81	769,073	0	0	6,045	0.79%	33,936	4.41%	\$1.36	14,396	51,243	18,089	67,963
Oceanside	33	990,106	0	0	2,125	0.21%	57,147	5.77%	\$1.39	14,819	15,125	16,089	33,339
San Marcos	57	1,041,139	0	0	45,431	4.36%	56,664	5.44%	\$1.30	2,404	(1,152)	4,130	17,580
Vista	64	1,396,930	0	0	223,720	16.02%	178,788	12.80%	\$1.57	3,348	11,390	4,527	147,914
Carlsbad	266	7,241,232	0	67,714	509,741	7.04%	842,066	11.63%	\$1.53	(140,021)	(71,590)	9,610	319,858
North Beach Cities	19	166,302	0	0	0	0.00%	0	0.00%	\$3.94	2,910	4,032	2,910	5,162
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	539	11,744,354	0	67,714	791,662	6.74%	1,173,201	9.99%	\$1.54	(102,144)	6,098	55,355	591,816
I-15 Corridor													
Poway	62	2,110,914	0	0	16,746	0.79%	24,358	1.15%	\$1.51	14,677	18,490	14,677	41,225
Rancho Bernardo	99	4,701,940	0	0	230,066	4.89%	229,928	4.89%	\$1.74	1,000	26,079	48,351	115,109
Scripps Ranch	30	794,157	145,000	100,000	30,944	3.90%	106,063	11.29%	\$1.87	(20,354)	(201,411)	0	24,838
I-15 Corridor Total	191	7,607,011	145,000	100,000	277,756	3.65%	360,349	4.65%	\$1.72	(4,677)	(156,842)	63,028	181,172
South County													
Chula Vista	85	1,498,029	0	0	72,321	4.83%	40,967	2.73%	\$1.56	1,103	26,415	6,532	95,876
National City	25	348,427	0	0	11,776	3.38%	462	0.13%	\$1.72	0	(11,776)	0	0
Otay Mesa	7	156,362	0	0	2,400	1.53%	2,400	1.53%	\$0.71	0	21,846	0	27,397
South San Diego	5	86,361	0	0	0	0.00%	0	0.00%	-	0	0	0	0
South County Total	122	2,089,179	0	0	86,497	4.14%	43,829	2.10%	\$1.23	1,103	36,485	6,532	123,273
San Diego County Total	1,968	52,075,631	676,128	2,182,596	2,917,678	5.60%	3,816,462	7.23%	\$1.94	267,322	227,235	786,787	2,447,305

Lease rates are on a triple-net basis.



Industrial Still Outperforming Other Sectors

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San Diego has a very dynamic commercial real estate market, and our 150 MSF industrial base is no exception. The industrial market has gone through tremendous rental and value growth over recent years and continues to remain at all-time highs. While the retail and office markets have had their challenges, the industrial market continues to remain extremely stable with an overall countywide vacancy rate of approximately 2.56%, and an availability rate of only 4.22%.

In any market this would be a strong indicator of the need to develop new product. But in San Diego there is an extremely limited supply of vacant buildable industrial land, so most new construction will be occurring on land containing existing product. Almost all of the Central County markets are completely built out. Even North County is getting to the point where there are very few buildable parcels available. South County is the only exception, however much of the existing land in Otay Mesa has been developed and that market has become stable while experiencing tremendous rent growth over the past few years.

Clearly the inflationary period we are in, combined with high interest rates, will have its effect on values. But the industrial investment market is still seeing all-time high values, although velocity has slowed over the past two quarters. Prices are still breaking records and fundamentals remain strong in the county with only approximately 2.4 MSF of development in the pipeline. Most of this development is in South County. Although the third quarter posted negative net absorption of 234,000 SF, we have seen 515,000 SF of positive net absorption year to date along with over 1.6 MSF of gross absorption in the third quarter.

While the market is still experiencing a slight uptick in the amount of available sublease space, it is not likely to affect vacancy and/or asking rental rates in a meaningful way. With an average countywide asking lease rate of \$1.32 per square foot per month, the industrial market is still riding its all-time high plateau. Central County and the I-15 corridor are leading the way, with average asking lease rents of \$1.59 and \$1.57 respectively.

It will be interesting to see if this is sustainable given the headwinds of economic uncertainty, high inflation, and the continued increase in interest rates, which could have a softening effect on the future industrial market.

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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