

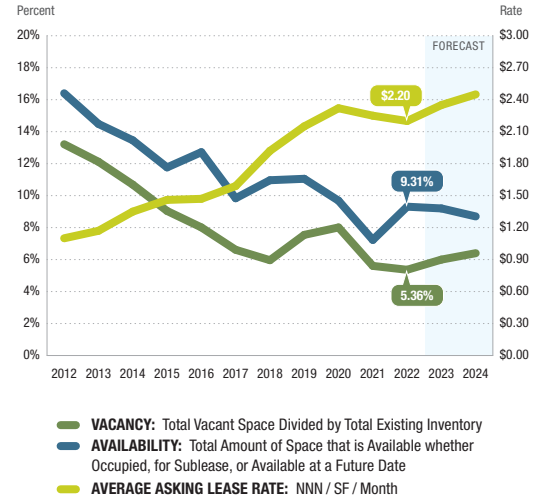
OVERVIEW. Net absorption was positive for the second consecutive year. Vacancy moved lower in 4Q and remains significantly below historic norms, while availability increased due to the significant amount of development currently in the construction pipeline. The Flex / R&D market in San Diego is driven by the biotech subset which remains active. Rental rates remain elevated from a long-term perspective. Sales activity was robust in 2022 but leasing and sales volume both finished the year with a thud, posting meager totals in 4Q.

VACANCY & AVAILABILITY. Direct/sublease space (unoccupied) finished 4Q 2022 at 5.36%, a decrease of 24 basis points from 4Q 2021's vacancy rate of 5.6%. This is an extremely low vacancy rate compared with a decade ago when the countywide vacancy rate finished 2011 above 16%. Direct/sublease space being marketed was 9.31% at the end of 4Q. The availability rate saw a 28.8% increase from the prior year, in contrast to the 4.3% decrease in vacancy during the same period. 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.

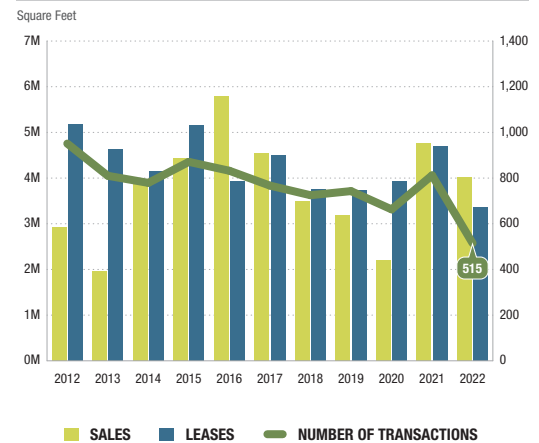
LEASE RATES. The average asking triple net lease rate per square foot per month in San Diego County was \$2.20 at the end of 4Q 2022, which is a 2.2% decrease from 4Q 2021. The average asking lease rate has been on a long-term trend of increases, but dramatic changes in the average in recent history are likely due to a change in the composition of available space. Over the past six years the countywide asking rental rate has increased an average of 7.3% 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 4Q totaled 1.2 MSF, a 63.2% decrease from the 3.2 MSF transacted in 4Q 2021. There were 764,166 SF of Flex / R&D space leased in 70 transactions recorded in 4Q. These figures were far below the five-year averages of 153 transactions, and 1 MSF leased per quarter. For the second consecutive year, the annual sales volume topped \$2 billion. Only once prior to 2021 has annual the annual Flex / R&D sales volume exceeded even \$1 billion. The post-pandemic years have seen a tidal wave of capital chasing life science real estate. 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 largest biotech ownership groups have shown an increasing willingness to divest of non-core assets in the San Diego market, and the buyer pool has grown with new players showing up in the largest sales every quarter. Oxford Properties Group acquired 2850 & 2855 Gazelle Court in Carlsbad at \$258,400,000 for the largest sale of 4Q.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



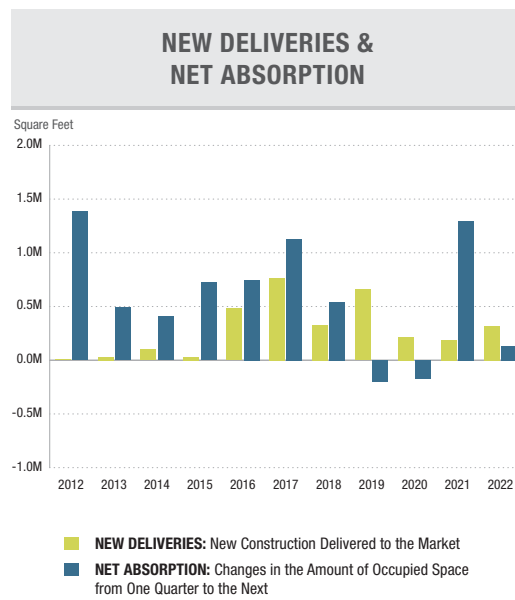
Market Statistics

	Change Over Last Quarter	4Q 2022	3Q 2022	4Q 2021	% Change Over Last Year
Vacancy Rate	■ FLAT	5.36%	5.47%	5.60%	(4.31%)
Availability Rate	▲ UP	9.31%	7.88%	7.23%	28.77%
Average Asking Lease Rate	▲ UP	\$2.20	\$2.07	\$2.25	(2.22%)
Sale & Lease Transactions	▼ DOWN	1,184,220	2,274,679	3,213,376	(63.15%)
Gross Absorption	▲ UP	850,519	663,495	1,249,338	(31.92%)
Net Absorption	▲ FLAT	5,994	(23,479)	730,814	N/A

ABSORPTION. The San Diego Flex/R&D market recorded a meager 5,994 SF of positive net absorption in 4Q 2022. Since the start of 2021, there has been a total of 1.4 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 2022 there were 1.1 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. Additionally, many ground-up developments are positioned towards both office and lab users to fill their new buildings.

EMPLOYMENT. The unemployment rate in San Diego County was 3.3% in November 2022, up from a revised 3.2% in October 2022, and below the year-ago estimate of 4.5%. This compares with an unadjusted unemployment rate of 4.0% for California and 3.4% for the nation during the same period. Over the 12-month period between November 2021 and November 2022, San Diego County employment increased by 48,400 jobs, an increase of 3.2%. 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, 223,000 jobs were added in December, the smallest monthly gain in two years.



Forecast

The Flex/R&D market is entering 2023 on solid footing with healthy market fundamentals. 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 be more difficult to source during an economic downturn, but also it will demand higher yields in response to rising interest rates. We anticipate an increase in vacancy as the surge of life science conversions centered around Sorrento Mesa come to completion in the second half of 2023.

Significant Transactions

Sales					
Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
2850 & 2855 Gazelle Ct.	Carlsbad	246,000	\$258,400,000	Oxford Properties Group	Ionis Pharmaceuticals
15822 Bernardo Center Dr.	Rancho Bernardo	64,019	\$27,441,000	Cush Enterprises	SENTRÉ, Inc.
2371 Fenton St.	Chula Vista	38,350	\$11,600,000	Harbor Springs Charter School	North Palisade Partners
3515 Hancock St.	Sports Arena	26,000	\$6,300,000	Reese Real Estate	Big Rib Holdings, LLC
6144-6152 Innovation Way	Carlsbad	12,159	\$4,500,000	CA Firefighter J.A.C.	FlightSafety International

Leases					
Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
2850 Gazelle Ct.	Carlsbad	246,000	Oct-2022	Ionis Pharmaceuticals	Oxford Properties Group
1155 Island Ave.	Downtown	36,000	Oct-2022	Excellos	Phase 3 RE Partners
6349 Paseo Del Lago	Carlsbad	19,462	Nov-2022	ClearPoint Neuro	Hedda Marosi
11436 Sorrento Valley Rd.	Sorrento Valley	18,000	Dec-2022	Undisclosed	Cal-Sorrento, Ltd.
4475 Executive Dr.	UTC	15,197	Oct-2022	Undisclosed	Phase 3 Real Estate

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 4Q2022	Square Feet Available	Availability Rate 4Q2022	Average Asking Lease Rate	Net Absorption 4Q2022	Net Absorption 2022	Gross Absorption 4Q2022	Gross Absorption 2022
Central													
Central City	12	170,791	0	0	20,064	11.75%	21,904	12.83%	\$2.13	0	(2,827)	0	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	3,000	1.24%	3,000	1.24%	\$1.62	66,720	2,000	69,720	74,720
Kearny Mesa	202	5,162,573	0	0	162,850	3.15%	265,086	5.13%	\$1.62	(25,842)	(110,529)	68,195	216,877
Mission Gorge	27	279,105	0	0	3,700	1.33%	22,086	7.91%	\$2.04	0	13,610	0	27,030
Rose Canyon/Morena	39	636,045	0	0	6,905	1.09%	45,990	7.23%	\$1.65	4,492	4,661	7,362	51,727
Sports Arena/Airport	32	418,986	0	0	64,939	15.50%	64,939	15.50%	\$1.50	0	0	0	0
Miramar	226	4,975,444	0	118,750	211,807	4.26%	337,938	6.79%	\$2.18	18,208	(28,001)	55,494	236,038
Sorrento Mesa	168	7,352,549	417,976	1,143,466	697,066	9.48%	1,182,616	15.22%	\$4.24	(122,724)	(22,037)	52,177	512,901
Sorrento Valley	111	2,684,972	0	0	123,224	4.59%	359,698	13.40%	\$3.26	116,429	249,472	135,364	411,062
Torrey Pines/UTC	77	6,765,466	186,300	717,666	302,702	4.47%	716,656	10.31%	\$6.95	(94,806)	45,744	2,170	258,574
Central County Total	918	28,713,817	950,404	1,979,882	1,596,257	5.56%	3,019,913	10.18%	\$2.58	(37,523)	152,093	390,482	1,791,407
East County													
El Cajon	81	919,280	0	0	21,871	2.38%	21,871	2.38%	\$1.27	(3,915)	54,935	0	68,121
La Mesa/Spring Valley	43	304,045	0	60,000	3,000	0.99%	3,000	0.99%	\$1.55	1,135	(3,000)	5,635	5,635
Santee/Lakeside	55	627,518	0	0	5,560	0.89%	6,050	0.96%	\$1.34	64,269	55,505	64,269	82,777
Rural East County	22	95,520	0	0	0	0.00%	0	0.00%	-	0	0	0	0
East County Total	201	1,946,363	0	60,000	30,431	1.56%	30,921	1.59%	\$1.36	61,489	107,440	69,904	156,533
North County													
Escondido	82	784,155	0	0	25,079	3.20%	52,970	6.76%	\$1.31	(4,396)	32,209	0	67,963
Oceanside	33	990,106	0	217,000	5,218	0.53%	56,160	5.67%	\$1.44	(3,093)	12,032	0	33,339
San Marcos	57	1,041,139	0	0	54,252	5.21%	61,047	5.86%	\$1.33	(8,821)	(9,973)	0	17,580
Vista	63	1,385,652	0	0	177,633	12.82%	215,399	15.54%	\$1.60	46,087	57,477	111,135	259,049
Carlsbad	262	7,241,295	0	67,714	602,412	8.32%	1,043,967	14.42%	\$1.60	(92,671)	(164,261)	95,266	415,124
North Beach Cities	19	166,302	0	0	880	0.53%	880	0.53%	\$3.82	(880)	3,152	0	5,162
Rural North County	19	139,572	0	0	3,200	2.29%	3,200	2.29%	\$1.00	1,400	(1,550)	1,400	1,400
North County Total	535	11,748,221	0	284,714	868,674	7.39%	1,433,623	12.20%	\$1.59	(62,374)	(70,914)	207,801	799,617
I-15 Corridor													
Poway	62	2,110,914	0	0	13,631	0.65%	18,935	0.90%	\$1.50	3,115	21,605	3,115	44,340
Rancho Bernardo	99	4,716,018	0	0	178,401	3.78%	320,083	6.79%	\$1.73	51,665	77,744	93,887	208,996
Scripps Ranch	30	794,157	145,000	100,000	76,617	9.65%	81,803	8.71%	\$2.30	(65,614)	(247,084)	9,555	34,393
I-15 Corridor Total	191	7,621,089	145,000	100,000	268,649	3.53%	420,821	5.42%	\$1.71	(10,834)	(147,735)	106,557	287,729
South County													
Chula Vista	85	1,498,029	0	0	24,131	1.61%	39,890	2.66%	\$1.52	48,190	74,605	64,461	160,337
National City	25	349,013	0	0	4,000	1.15%	5,320	1.52%	\$1.88	7,776	(4,000)	11,314	11,314
Otay Mesa	7	156,362	0	0	3,130	2.00%	3,130	2.00%	\$0.70	(730)	21,116	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	2,089,765	0	0	31,261	1.50%	48,340	2.31%	\$1.19	55,236	91,721	75,775	199,048
San Diego County Total	1,967	52,119,255	1,095,404	2,424,596	2,795,272	5.36%	4,953,618	9.31%	\$2.20	5,994	132,605	850,519	3,234,334

Lease rates are on a triple-net basis.



Waiting On the World to Change

by **Todd Holley, SIOR**

SENIOR VICE PRESIDENT / PARTNER, SAN DIEGO
858.458.3349 . tholley@voitco.com . Lic. #01046508

There is a large segment of buyers and tenants who have been sitting on the sideline waiting for the bottom of the industrial market to fall out. It hasn't happened. Perceptions of the market are being clouded by the memory of the local residential market, which went from dozens of competing offers on every new listing to a swift decline following interest rate hikes. In the Central County industrial market, we are still seeing multiple offers on new availabilities for sale and for lease, for anything that isn't functionally obsolete. Rental rates are holding strong with minimal concessions, and there aren't enough owner-user options for sale in the market to satisfy existing demand. Landlords are, generally, still able to pick and choose high-credit tenants for new availabilities, and sellers are still seeing enough demand to prefer cash buyers and quick closings. There is still strength in the industrial market. There is, however, a growing bid/ask differential in the user sales market. Buyers are reading doom and gloom headlines thinking the world is falling apart, and sellers would like to somewhat disregard the effect rising interest rates have on the market. With more interest rate increases forecast for the coming quarters, now is the time to capitalize on the massive price increases of the past couple years before higher interest rates become more of a hindrance.

On the R&D side, tenant demand for labs in the market has pulled back along with venture capital activity. There are half a dozen projects in the Sorrento Mesa area which are still in the midst of lab conversion, and by the time all of these projects get to market, someone may be left holding the bag. Underwriting for this repositioning and redevelopment was often based upon rental rates in the \$7.00 NNN range to make things pencil for the acquisition and capital improvements cost. That's an extremely high rate for San Diego by historical standards, and if demand and venture capital activity remains reduced at the time of completion, we may see some of these projects leasing for much less than was initially projected.

The San Diego Industrial market remains extremely tight, as it has been for the past five years. We are still at all-time highs for rental rates, with very minimal rent concessions, and extremely limited availability.

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

Please Contact Us for Further Information

Joshua Brant
Regional Director of Research
jbrant@voitco.com

Anaheim, CA	Carlsbad, CA	Inland Empire, CA	Irvine, CA	Los Angeles, CA	San Diego, CA
714.978.7880	760.472.5620	909.545.8000	949.851.5100	424.329.7500	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.