

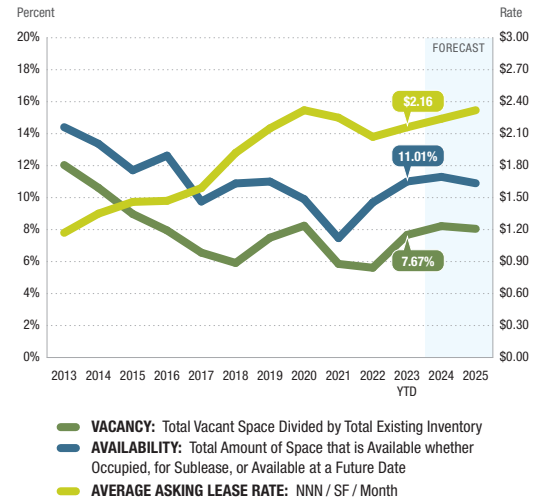
**OVERVIEW.** On the heels of two consecutive years of positive net absorption, the Flex / R&D market started the year firmly in the red with 1 MSF of negative net absorption, and an increase in the vacancy and availability rates. The Flex / R&D market in San Diego is driven by the biotech sector which is showing signs of slowing. Rental rates remain elevated from a long-term perspective. Sales activity was robust in 2022, but leasing and sales volume both started the year posting meager totals in Q1.

**VACANCY & AVAILABILITY.** Direct/sublease space (unoccupied) finished Q1 2023 at 7.7%, a significant increase of 40% from Q1 2022's vacancy rate of 5.5%. This is less than half the vacancy rate compared with eleven years ago when the countywide vacancy rate finished 2011 above 16%. Direct/sublease space being marketed was 11% at the end of Q1. The availability rate saw a 57.8% increase from the prior year. 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.

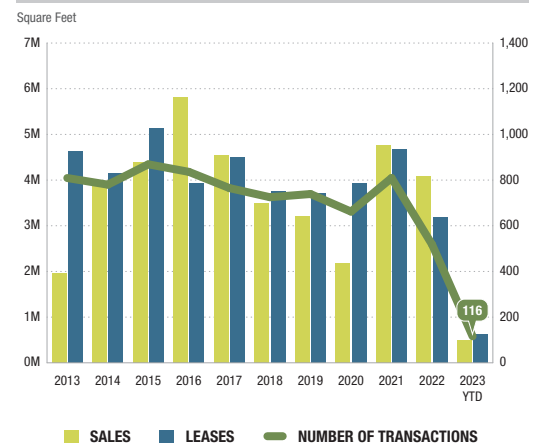
**LEASE RATES.** The average asking triple net lease rate per square foot per month in San Diego County was \$2.16 at the end of Q1 2023, which is a decrease of one cent from Q1 2022. The average asking lease rate has been on a long-term trend of increases, but dramatic changes in the average in recent history are likely due to a change in the composition of available space. Over the past seven years the countywide asking rental rate has increased an average of 6% 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 Q1 totaled 1.1 MSF, a 42.2% decrease from the 1.9 MSF transacted in Q1 2022. There were 533,448 SF of Flex / R&D space leased in 93 transactions recorded in Q1. These figures were far below the five-year averages of 145 transactions and 957,236 SF leased per quarter. Interestingly, one of the largest sales of Q1 involved an acquisition by a residential developer. San Diego has had a housing deficit for a number of years, and this has commonly showed up in retail or office properties being acquired for redevelopment into residential properties. The demand for infill residential redevelopment sites made its way into the Flex / R&D sales in Q1 with Trammell Crow's purchase of 7700 Ronson Road. Another trend that showed up in multiple property types in Q1 was repeat sellers. In addition to divesting one of the largest Flex / R&D transactions in Q1, Merlone Geier sold one of the largest retail properties of the quarter (in two tranches). Likewise, Blackstone's Link Logistics group divested one of the largest Flex / R&D properties of Q1 and one of the largest industrial properties.

### VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



### TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



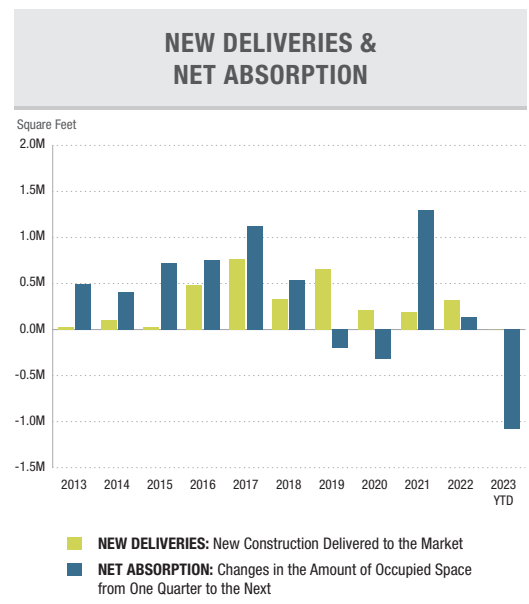
### Market Statistics

|                           | Change Over Last Quarter | Q1 2023     | Q4 2022   | Q1 2022   | % Change Over Last Year |
|---------------------------|--------------------------|-------------|-----------|-----------|-------------------------|
| Vacancy Rate              | ▲ UP                     | 7.67%       | 5.61%     | 5.46%     | 40.40%                  |
| Availability Rate         | ▲ UP                     | 11.01%      | 9.70%     | 6.98%     | 57.76%                  |
| Average Asking Lease Rate | ▲ UP                     | \$2.16      | \$2.07    | \$2.17    | (0.46%)                 |
| Sale & Lease Transactions | ▼ DOWN                   | 1,115,546   | 1,242,579 | 1,929,557 | (42.19%)                |
| Gross Absorption          | ▼ DOWN                   | 502,063     | 897,274   | 899,176   | (44.16%)                |
| Net Absorption            | ▼ NEGATIVE               | (1,080,950) | 51,349    | 268,529   | N/A                     |

**ABSORPTION.** The San Diego Flex/R&D market recorded 1,080,950 SF of negative net absorption in Q1. The negative net absorption was spread out across the market with every region of the county recording a contraction of the total tenant footprint in Q1. There has not been a year with more than 0.5 MSF of negative net absorption in the Flex/R&D market in over a decade. The biotech segment of the Flex/R&D market has a very boom-bust nature with a relatively high percentage of large tenants which can move the market rapidly in one direction or the other.

**CONSTRUCTION.** At the end of Q1, there were 1.2 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 continues to be a large amount of capital 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 3.7% in February 2023, unchanged a revised 3.7% in January 2023, and below the year-ago estimate of 4.1%. This compares with an unadjusted unemployment rate of 4.8% for California and 3.9% for the nation during the same period. Over the 12-month period between February 2022 and February 2023, San Diego County employment increased by 52,900 jobs, an increase of 3.5%. With the normal delay in reporting from the California EDD, employment figures from March were unavailable at the time of publishing this report. For the nation as a whole, 236,000 jobs were added in March, the lowest monthly total since December 2020.



Forecast

There are concerns that the supply of biotech conversions is going to outpace tenant demand. Growth in 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 reach completion in the second half of 2023. The Flex/R&D market started the year with a massive amount of negative net absorption, and this is so far above the historical norm that we anticipate some positive net absorption in the coming quarters to partially offset this rough start to the year.

Significant Transactions

| Sales                  |                    |             |               |                           |                    |
|------------------------|--------------------|-------------|---------------|---------------------------|--------------------|
| Property Address       | Submarket          | Square Feet | Sale Price    | Buyer                     | Seller             |
| 9333 Balboa Ave.       | Kearny Mesa        | 499,021     | \$200,000,000 | Rexford Industrial Realty | Cubic              |
| 4901-4907 Morena Blvd. | Morena/Rose Canyon | 235,198     | \$72,750,000  | Vertical Ventures         | Link Logistics     |
| 7700 Ronson Rd.        | Kearny Mesa        | 228,690     | \$42,076,000  | Trammell Crow Residential | Merlone Geier      |
| 2210 Faraday Ave.      | Carlsbad           | 119,591     | \$35,750,000  | BentallGreenOak           | Hill Companies     |
| 2271 Cosmos Ct.        | Carlsbad           | 88,533      | \$21,050,000  | Wimatex, Inc              | Gregory Koch Trust |

| Leases                    |                 |             |                  |             |                                 |
|---------------------------|-----------------|-------------|------------------|-------------|---------------------------------|
| Property Address          | Submarket       | Square Feet | Transaction Date | Tenant      | Owner                           |
| 6290-6350 Sequence Dr.    | Sorrento Mesa   | 351,617     | Feb-2023         | Dexcom      | Alexandria Real Estate Equities |
| 2131 Faraday Ave.         | Carlsbad        | 47,075      | Feb-2023         | Undisclosed | RAF Pacifica Group              |
| 4851 Paramount Dr.        | Kearny Mesa     | 24,614      | Jan-2023         | Taoglas     | Paramount Drive, LLC            |
| 10965 Via Frontera        | Rancho Bernardo | 21,222      | Mar-2023         | IRRAS       | Hill Properties                 |
| 10865 Rancho Bernardo Rd. | Rancho Bernardo | 19,558      | Mar-2023         | Microtek    | Brehm Communications            |

|                               | INVENTORY        |                          |                   |                     | VACANCY & LEASE RATES |                      |                       |                           |                           | ABSORPTION             |                     |                          |                       |
|-------------------------------|------------------|--------------------------|-------------------|---------------------|-----------------------|----------------------|-----------------------|---------------------------|---------------------------|------------------------|---------------------|--------------------------|-----------------------|
|                               | Number of Bldgs. | Net Rentable Square Feet | Square Feet U / C | Square Feet Planned | Square Feet Vacant    | Vacancy Rate Q1 2023 | Square Feet Available | Availability Rate Q1 2023 | Average Asking Lease Rate | Net Absorption Q1 2023 | Net Absorption 2023 | Gross Absorption Q1 2023 | Gross Absorption 2023 |
| <b>Central</b>                |                  |                          |                   |                     |                       |                      |                       |                           |                           |                        |                     |                          |                       |
| Central City                  | 12               | 170,791                  | 0                 | 0                   | 26,564                | 15.55%               | 28,404                | 16.63%                    | \$2.13                    | (6,500)                | (6,500)             | 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                   | 2,500                 | 1.04%                | 2,500                 | 1.04%                     | \$1.66                    | 500                    | 500                 | 3,000                    | 3,000                 |
| Kearny Mesa                   | 202              | 5,204,120                | 0                 | 0                   | 228,040               | 4.38%                | 301,955               | 5.80%                     | \$1.73                    | (65,190)               | (65,190)            | 48,513                   | 48,513                |
| Mission Gorge                 | 28               | 294,807                  | 0                 | 0                   | 5,100                 | 1.73%                | 37,602                | 12.75%                    | \$2.13                    | (1,400)                | (1,400)             | 0                        | 0                     |
| Rose Canyon/Morena            | 40               | 642,045                  | 0                 | 0                   | 47,100                | 7.34%                | 58,089                | 9.05%                     | \$1.81                    | (40,195)               | (40,195)            | 5,323                    | 5,323                 |
| Sports Arena/Airport          | 32               | 418,986                  | 0                 | 0                   | 64,939                | 15.50%               | 71,164                | 16.98%                    | \$1.75                    | 0                      | 0                   | 0                        | 0                     |
| Miramar                       | 226              | 4,975,980                | 0                 | 0                   | 236,453               | 4.75%                | 400,036               | 8.04%                     | \$2.17                    | (24,646)               | (24,646)            | 75,858                   | 75,858                |
| Sorrento Mesa                 | 169              | 7,559,712                | 417,976           | 936,466             | 1,123,988             | 14.87%               | 1,432,742             | 17.96%                    | \$4.05                    | (276,922)              | (276,922)           | 86,000                   | 86,000                |
| Sorrento Valley               | 111              | 2,679,787                | 0                 | 0                   | 235,322               | 8.78%                | 429,077               | 16.01%                    | \$3.23                    | (112,098)              | (112,098)           | 26,164                   | 26,164                |
| Torrey Pines/UTC              | 78               | 6,931,759                | 186,300           | 717,666             | 537,372               | 7.75%                | 995,413               | 13.98%                    | \$6.95                    | (235,760)              | (235,760)           | 9,374                    | 9,374                 |
| <b>Central County Total</b>   | <b>922</b>       | <b>29,145,873</b>        | <b>950,404</b>    | <b>1,654,132</b>    | <b>2,507,378</b>      | <b>8.60%</b>         | <b>3,756,982</b>      | <b>12.48%</b>             | <b>\$2.59</b>             | <b>(762,211)</b>       | <b>(762,211)</b>    | <b>254,232</b>           | <b>254,232</b>        |
| <b>East County</b>            |                  |                          |                   |                     |                       |                      |                       |                           |                           |                        |                     |                          |                       |
| El Cajon                      | 81               | 919,280                  | 0                 | 0                   | 32,449                | 3.53%                | 41,105                | 4.47%                     | \$1.40                    | (10,578)               | (10,578)            | 1,981                    | 1,981                 |
| La Mesa/Spring Valley         | 43               | 301,259                  | 0                 | 0                   | 0                     | 0.00%                | 0                     | 0.00%                     | \$1.58                    | 3,000                  | 3,000               | 3,000                    | 3,000                 |
| Santee/Lakeside               | 54               | 610,618                  | 0                 | 0                   | 14,850                | 2.43%                | 14,850                | 2.43%                     | \$1.33                    | (9,290)                | (9,290)             | 10,266                   | 10,266                |
| Rural East County             | 22               | 95,520                   | 0                 | 0                   | 0                     | 0.00%                | 0                     | 0.00%                     | -                         | 0                      | 0                   | 0                        | 0                     |
| <b>East County Total</b>      | <b>200</b>       | <b>1,926,677</b>         | <b>0</b>          | <b>0</b>            | <b>47,299</b>         | <b>2.45%</b>         | <b>55,955</b>         | <b>2.90%</b>              | <b>\$1.41</b>             | <b>(16,868)</b>        | <b>(16,868)</b>     | <b>15,247</b>            | <b>15,247</b>         |
| <b>North County</b>           |                  |                          |                   |                     |                       |                      |                       |                           |                           |                        |                     |                          |                       |
| Escondido                     | 82               | 784,079                  | 0                 | 0                   | 23,462                | 2.99%                | 64,311                | 8.20%                     | \$1.44                    | 1,617                  | 1,617               | 3,000                    | 3,000                 |
| Oceanside                     | 33               | 990,106                  | 0                 | 217,000             | 3,791                 | 0.38%                | 55,720                | 5.63%                     | \$1.48                    | 1,427                  | 1,427               | 5,218                    | 5,218                 |
| San Marcos                    | 57               | 1,041,338                | 0                 | 0                   | 52,051                | 5.00%                | 56,949                | 5.47%                     | \$1.37                    | 2,201                  | 2,201               | 6,364                    | 6,364                 |
| Vista                         | 63               | 1,385,652                | 0                 | 0                   | 139,158               | 10.04%               | 176,924               | 12.77%                    | \$1.78                    | 38,475                 | 38,475              | 59,173                   | 59,173                |
| Carlsbad                      | 262              | 7,202,696                | 0                 | 67,714              | 691,736               | 9.60%                | 1,070,893             | 14.87%                    | \$1.69                    | (89,324)               | (89,324)            | 129,347                  | 129,347               |
| North Beach Cities            | 19               | 166,277                  | 0                 | 0                   | 16,515                | 9.93%                | 13,515                | 8.13%                     | \$3.57                    | (15,635)               | (15,635)            | 0                        | 0                     |
| Rural North County            | 19               | 139,572                  | 0                 | 0                   | 4,400                 | 3.15%                | 4,400                 | 3.15%                     | \$1.00                    | (1,200)                | (1,200)             | 0                        | 0                     |
| <b>North County Total</b>     | <b>535</b>       | <b>11,709,720</b>        | <b>0</b>          | <b>284,714</b>      | <b>931,113</b>        | <b>7.95%</b>         | <b>1,442,712</b>      | <b>12.32%</b>             | <b>\$1.68</b>             | <b>(62,439)</b>        | <b>(62,439)</b>     | <b>203,102</b>           | <b>203,102</b>        |
| <b>I-15 Corridor</b>          |                  |                          |                   |                     |                       |                      |                       |                           |                           |                        |                     |                          |                       |
| Poway                         | 62               | 2,113,728                | 0                 | 0                   | 13,631                | 0.64%                | 26,066                | 1.23%                     | \$1.45                    | 0                      | 0                   | 0                        | 0                     |
| Rancho Bernardo               | 99               | 4,700,585                | 0                 | 0                   | 414,529               | 8.82%                | 487,352               | 10.37%                    | \$1.82                    | (236,128)              | (236,128)           | 16,131                   | 16,131                |
| Scripps Ranch                 | 30               | 794,157                  | 248,000           | 100,000             | 76,227                | 9.60%                | 103,409               | 9.92%                     | \$1.94                    | 390                    | 390                 | 390                      | 390                   |
| <b>I-15 Corridor Total</b>    | <b>191</b>       | <b>7,608,470</b>         | <b>248,000</b>    | <b>100,000</b>      | <b>504,387</b>        | <b>6.63%</b>         | <b>616,827</b>        | <b>7.85%</b>              | <b>\$1.77</b>             | <b>(235,738)</b>       | <b>(235,738)</b>    | <b>16,521</b>            | <b>16,521</b>         |
| <b>South County</b>           |                  |                          |                   |                     |                       |                      |                       |                           |                           |                        |                     |                          |                       |
| Chula Vista                   | 85               | 1,498,029                | 0                 | 0                   | 28,187                | 1.88%                | 31,102                | 2.08%                     | \$1.65                    | (4,056)                | (4,056)             | 8,317                    | 8,317                 |
| National City                 | 25               | 349,013                  | 0                 | 0                   | 6,038                 | 1.73%                | 6,038                 | 1.73%                     | \$1.73                    | (2,038)                | (2,038)             | 2,244                    | 2,244                 |
| Otay Mesa                     | 7                | 156,362                  | 0                 | 0                   | 730                   | 0.47%                | 0                     | 0.00%                     | \$1.94                    | 2,400                  | 2,400               | 2,400                    | 2,400                 |
| South San Diego               | 5                | 86,361                   | 0                 | 0                   | 0                     | 0.00%                | 0                     | 0.00%                     | -                         | 0                      | 0                   | 0                        | 0                     |
| <b>South County Total</b>     | <b>122</b>       | <b>2,089,765</b>         | <b>0</b>          | <b>0</b>            | <b>34,955</b>         | <b>1.67%</b>         | <b>37,140</b>         | <b>1.78%</b>              | <b>\$1.69</b>             | <b>(3,694)</b>         | <b>(3,694)</b>      | <b>12,961</b>            | <b>12,961</b>         |
| <b>San Diego County Total</b> | <b>1,970</b>     | <b>52,480,505</b>        | <b>1,198,404</b>  | <b>2,038,846</b>    | <b>4,025,132</b>      | <b>7.67%</b>         | <b>5,909,616</b>      | <b>11.01%</b>             | <b>\$2.16</b>             | <b>(1,080,950)</b>     | <b>(1,080,950)</b>  | <b>502,063</b>           | <b>502,063</b>        |

Lease rates are on a triple-net basis.



## Economic Headwinds vs. Strong Market Fundamentals

by **Curt Perry**

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In 2022 we witnessed the effects that rising interest rates, increasing inflation, and the pandemic hangover have had on real estate. Contrary to the other product types, these negative influences had little effect on the San Diego industrial market, which weathered the storm — we saw demand at record highs, lease rates and sale prices at record levels, and vacancy at a historical low.

However, the industrial market has taken a breather and cooled slightly over the past few quarters. This is primarily due to cautious tenants' concern with economic uncertainty attributed to geopolitical tensions, regional bank instability, and inflation. The industrial market is reliant on a dependable supply chain. Further disruption of supply chains due to geopolitical issues would have an adverse effect on the market, but fortunately this concern appears to be waning.

The recent bank instability brings back memories of the 2008 crash. This has caused banks to tighten their lending practices as they are being scrutinized by both their depositors and their government regulators. Another concern we foresee is the pressure real estate owners will face who have loans coming due this year. In the past, these owners were able to finance properties at historically low rates, but they may not be able to refinance at today's higher interest rates and could be forced to sell. This possibility, coupled with a steady influx of industrial building supply hitting the market at the same time, could put some pressure on sale prices and could have a negative effect on the overall industrial market.

While the market has generally cooled, the outlook for San Diego industrial is still favorable owing to several factors such as lack of developable land. In addition, the robust logistics sector, distribution, and cross-border manufacturing with Mexico are positive influences for the San Diego market. Low vacancy in most submarkets and the constraints on future inventory deliveries will bode well for real estate/hard asset owners and further support pricing stability.

Even with the aforementioned persistent economic headwinds, the San Diego industrial market is poised to have another solid year, as evidenced by available spaces under 50,000 SF still leasing with little down time. Additionally, inflation is still being outpaced by industrial rent growth, which remains well above the historical average. As we launch into the second quarter of 2023, we will need to keep a close eye on the economic headwinds and monitor the metrics that influence tenant decisions.

### Please Contact Us for Further Information

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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.

### 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