

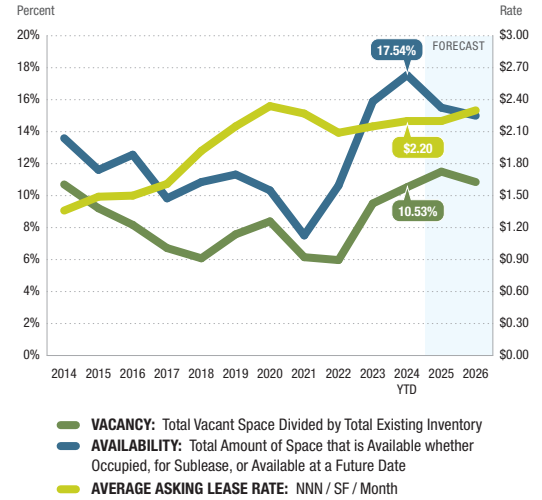
OVERVIEW. Following two consecutive years of positive net absorption in 2021 and 2022, the Flex/R&D market has seen negative net absorption in every quarter since the start of 2023, along with a substantial increase in the vacancy and availability rates. The Flex/R&D market in San Diego is driven by the biotech sector which has pulled back following the torrential growth immediately following COVID-19. Rental rates remain elevated from a long-term perspective. Sales volume started 2024 on par with historic norms, but leasing activity remains muted.

VACANCY & AVAILABILITY. Direct/sublease space (unoccupied) finished Q2 2024 at 10.53%, a substantial increase of 27% from Q2 2023's vacancy rate of 8.27%. Notwithstanding the increase in the vacancy rate seen over the last two years, this is still well below the vacancy rate from the trough reached during the Great Recession (the countywide vacancy rate finished 2011 above 16%). The current availability rate marks a 31% increase over the prior year. Direct/sublease space being marketed was 17.54% at the end of Q2. 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. The segments of the county with the least amount of lab space and smallest total inventory, East County and South County, both have availability rates in the single digits. Since the start of 2022, the sublease availability across the county has increased nearly fivefold and finished Q2 2024 at 4.2%.

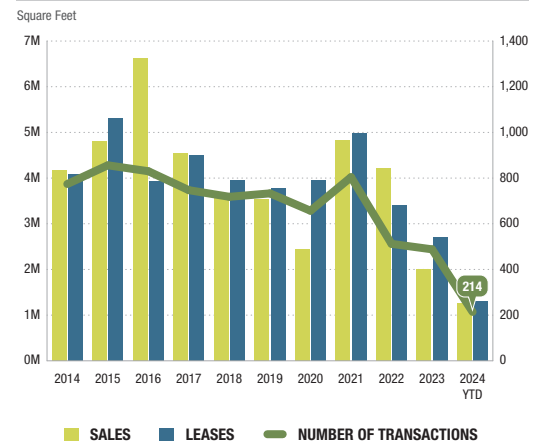
LEASE RATES. The average asking triple net lease rate per square foot per month in San Diego County was \$2.20 at the end of Q2 2024, which is a decrease of 7.56% from Q2 2023. The average asking lease rate has been on a long-term trend of increases, but dramatic swings in the average often occur due to a change in the composition of available space. Over the past ten years the countywide asking rental rate has increased more than 60%, 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 Q2 totaled 1.5 MSF, a 32% increase from the 1.1 MSF transacted in Q2 2023. There were 753,802 SF of Flex/R&D space leased in 96 transactions recorded in Q2. These figures were far below the five-year averages of 130 transactions and 922,088 SF leased per quarter. Sales activity practically came to a halt at the end of 2023, with the final two quarters of that year recording less than \$100 million of Flex/R&D building sales. 2024 has seen a bounce back to a healthier level of over \$200 million in sales each quarter of the first half of the year. The headline sale in Q2 was an affiliate of General Atomics' acquisition of a 702,428 SF campus they occupy in Poway.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



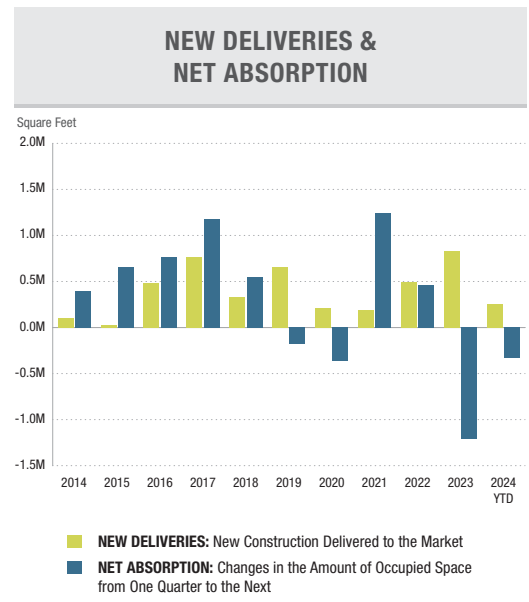
Market Statistics

	Change Over Last Quarter	Q2 2024	Q1 2024	Q2 2023	% Change Over Last Year
Vacancy Rate	▲ UP	10.53%	10.09%	8.27%	27.29%
Availability Rate	▲ UP	17.54%	17.03%	13.37%	31.15%
Average Asking Lease Rate	▼ DOWN	\$2.20	\$2.29	\$2.38	(7.56%)
Sale & Lease Transactions	▲ UP	1,530,029	1,015,197	1,161,118	31.77%
Gross Absorption	▲ UP	724,161	638,455	593,317	22.05%
Net Absorption	▼ NEGATIVE	(14,227)	(316,414)	(423,082)	N/A

ABSORPTION. The San Diego Flex/R&D market recorded 14,227 SF of negative net absorption in Q2, following 316,414 SF of negative net absorption in Q1. The modest decrease in the total Flex/R&D footprint in Q2 was concentrated in the Central County, primarily in the Sorrento Mesa submarket. The biotech segment of the Flex/R&D market has a very boom-bust nature dominated by a high percentage of large tenants, and this can move the market statistics rapidly in one direction or the other.

CONSTRUCTION. At the end of Q2 there were 1.9 MSF under construction or lab conversion, with 74% of this space still available for lease. 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. All of the properties under construction at the end of Q2 were in the submarkets surrounding UCSD, apart from Ionis Pharmaceuticals' 165,000 SF build-to-suit expansion in Carlsbad. The conversions from office or industrial to lab space do not show up in the new construction totals. The dividing line between office properties and flex properties is becoming less distinct, especially in Sorrento Mesa and Sorrento Valley which have been the epicenter of recent lab conversions. 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 3.6% in May 2024, down from a revised 4.1% in April 2024, and above the year-ago estimate of 3.3%. This compares with an unadjusted unemployment rate of 4.5% for California and 3.7% for the nation during the same period. Over the 12-month period between May 2023 and May 2024, San Diego County employment increased by 6,900 jobs, an increase of 0.4%. With the normal delay in reporting from the California EDD, employment figures from June were unavailable at the time of publishing this report. For the nation as a whole, the unemployment rate rose to 4.1% in June, matching the highest level since October 2021.



Forecast

It is evident that the supply of biotech properties has outpaced tenant demand currently in the market, and the vacancy rate remains on a trend of increases. On the bright side, venture capital dollar volume was up at the start of 2024, specifically early-stage funding. This should give a boost to leasing volume as R&D companies are heavily reliant upon this funding for growth.

Significant Transactions

Sales						* Voit Real Estate Services Deal
Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller	
14105-14311 Kirkham Way	Poway	702,428	\$180,000,000	Sorrento West Properties	Healthpeak Properties	
6352 & 6354 Corte del Abeto	Carlsbad	64,045	\$19,300,000	TA Realty	BKM Capital Partners	
9575 Aero Dr.	Kearny Mesa	55,093	\$17,985,000	Rady Children's Hospital	JRC RE Investment Corp.	
10461 & 10463 Austin Dr.	Spring Valley	21,694	\$5,850,000	1120 Austin Partners, LLC	Austin Industrial, LLC	
4340 Vandever Ave.	Mission Gorge	16,855	\$4,560,000	Dezz Holdings, LLC	Idyll Ventures, LLC*	

Leases					
Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
10075 Barnes Canyon Rd.	Sorrento Mesa	127,382	Jun-2024	Undisclosed	Alexandria RE Equities
3020 Callan Rd.	Torrey Pines	105,511	Apr-2024	Biosciences	(Sublease)
2790 Business Park Dr.	Vista	49,299	Apr-2024	Granite Construction	Meruelo Group
10255 Science Center Dr.	Torrey Pines	46,353	Jun-2024	Undisclosed	BioMed Realty
2777 Loker Ave. W.	Carlsbad	31,095	Jun-2024	Undisclosed	(Sublease)

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate Q2 2024	Square Feet Available	Availability Rate Q2 2024	Average Asking Lease Rate	Net Absorption Q2 2024	Net Absorption 2024	Gross Absorption Q2 2024	Gross Absorption 2024
Central													
Central City	14	188,791	0	0	38,564	20.43%	40,404	21.40%	\$1.80	0	(6,400)	0	0
East City	3	373,020	0	0	0	0.00%	0	0.00%	-	0	0	0	0
Southeast City	24	254,826	0	0	0	0.00%	0	0.00%	-	0	2,000	0	2,000
Kearny Mesa	201	5,373,588	0	5,400	225,568	4.20%	432,982	8.06%	\$1.73	24,631	(7,474)	62,479	107,082
Mission Gorge	27	277,742	0	0	8,892	3.20%	8,892	3.20%	\$2.08	(5,626)	(8,892)	3,266	3,266
Rose Canyon/Morena	37	582,288	0	0	54,065	9.28%	52,922	9.09%	\$1.83	(18,902)	(23,330)	11,054	39,196
Sports Arena/Airport	33	427,078	0	0	71,664	16.78%	13,725	3.21%	\$1.87	0	1,224	0	1,224
Miramar	220	4,875,104	0	0	333,884	6.85%	608,684	12.49%	\$2.00	(37,040)	(64,883)	35,569	84,362
Sorrento Mesa	178	8,544,351	1,205,683	662,196	1,965,813	23.01%	3,558,898	36.50%	\$3.94	(198,645)	(137,899)	73,175	247,198
Sorrento Valley	113	2,755,274	0	0	537,157	19.50%	658,790	23.91%	\$2.41	(13,165)	(68,378)	77,868	108,553
Torrey Pines/UTC	85	7,352,941	540,666	340,000	896,072	12.19%	1,631,945	20.67%	\$4.26	116,514	27,242	181,606	279,652
Central County Total	935	31,005,003	1,746,349	1,007,596	4,131,679	13.33%	7,007,242	21.40%	\$2.68	(132,233)	(286,790)	445,017	872,533
East County													
El Cajon	79	896,978	0	0	33,009	3.68%	36,323	4.05%	\$1.51	(6,409)	(10,324)	12,437	12,437
La Mesa/Spring Valley	42	298,659	0	60,000	7,121	2.38%	7,121	2.38%	\$1.55	379	(2,121)	2,500	2,500
Santee/Lakeside	53	601,956	0	0	0	0.00%	600	0.10%	\$1.38	0	14,812	0	14,812
Rural East County	22	95,520	0	0	0	0.00%	0	0.00%	-	0	0	0	0
East County Total	196	1,893,113	0	60,000	40,130	2.12%	44,044	2.33%	\$1.46	(6,030)	2,367	14,937	29,749
North County													
Escondido	82	767,809	0	0	42,421	5.52%	51,011	6.64%	\$1.51	1,974	1,974	3,357	3,357
Oceanside	33	966,298	0	0	11,400	1.18%	30,232	3.13%	\$1.53	19,783	(306)	19,783	19,783
San Marcos	56	1,054,187	0	0	21,619	2.05%	68,979	6.54%	\$1.47	(3,771)	10,051	3,429	20,340
Vista	63	1,393,645	0	0	101,387	7.27%	148,356	10.65%	\$1.40	17,300	22,779	26,657	43,296
Carlsbad	262	7,393,876	165,000	67,714	769,389	10.41%	1,428,795	18.90%	\$1.84	49,909	(69,675)	104,802	205,802
North Beach Cities	18	157,559	0	0	3,845	2.44%	4,629	2.94%	\$3.01	1,395	1,395	2,525	2,525
Rural North County	20	150,487	0	0	0	0.00%	1,550	1.03%	\$1.00	2,950	1,650	2,950	2,950
North County Total	534	11,883,861	165,000	67,714	950,061	7.99%	1,733,552	14.39%	\$1.67	89,540	(32,132)	163,503	298,053
I-15 Corridor													
Poway	64	2,264,792	0	0	52,344	2.31%	120,086	5.30%	\$1.70	(18,543)	(23,602)	9,607	18,054
Rancho Bernardo	100	4,815,049	0	0	424,104	8.81%	822,614	17.08%	\$1.81	45,136	51,421	72,920	108,925
Scripps Ranch	32	1,061,014	0	100,000	149,571	14.10%	169,512	15.98%	\$1.50	0	(49,855)	0	0
I-15 Corridor Total	196	8,140,855	0	100,000	626,019	7.69%	1,112,212	13.66%	\$1.78	26,593	(22,036)	82,527	126,979
South County													
Chula Vista	81	1,473,880	0	0	36,367	2.47%	68,315	4.64%	\$1.81	1,946	(1,247)	12,220	26,105
National City	23	300,227	0	0	2,250	0.75%	6,359	2.12%	\$1.73	1,782	5,022	1,782	5,022
Otay Mesa	7	156,362	0	0	0	0.00%	0	0.00%	-	0	0	0	0
South San Diego	5	86,876	0	0	0	0.00%	0	0.00%	-	4,175	4,175	4,175	4,175
South County Total	116	2,017,345	0	0	38,617	1.91%	74,674	3.70%	\$1.79	7,903	7,950	18,177	35,302
San Diego County Total	1,977	54,940,177	1,911,349	1,235,310	5,786,506	10.53%	9,971,724	17.54%	\$2.20	(14,227)	(330,641)	724,161	1,362,616

Lease rates are on a triple-net basis.



San Diego Faring Better Than Friends to the North

by **Randall LaChance**

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The San Diego industrial market has been one of the best-performing industrial markets in the country for the past several years. Until recently, a limited supply of developable land, and a highly diversified tenant base including logistics operators, defense contractors, and cross-border commerce with Mexico, combined to generate robust transaction velocity. Like most industrial markets, the post-pandemic market experienced unprecedented industrial demand from all companies responding to a spike in their online sales. Industrial vacancy dropped to less than 2% in San Diego County, rents increased annually by double digits, and new industrial developments started popping up where land was available.

Then the Fed started raising rates dramatically in 2022 to slow down the overheated economy and 9% inflation. This, along with ominous predictions of recession from prominent economists, slowed tenant demand. We have seen negative absorption for seven of the last eight quarters, and vacancy rates have climbed by 3.8 percentage points. This is causing rent growth to flatten and, in some submarkets and certain size ranges, to actually pull back. In these areas, this has been coupled with an increase in leasing incentives, as some spaces are seeing longer downtime.

That said, San Diego is faring better than our neighbors to the north for two reasons: 1) San Diego is a smaller market (approximately 154 MSF) compared with Los Angeles, Orange County and the Inland Empire, and 2) we did not see the same rent growth those markets experienced during the last five years. San Diego's rent growth was approximately 40% over the last five years, while other Southern California markets saw nearly 60%. In the Inland Empire, rents have increased by nearly 300% over the last ten years.

Although all Southern California industrial markets are relatively healthy with single-digit vacancy metrics, they have all experienced multiple quarters of negative absorption over the past couple of years. This has pushed previous all-time-low vacancy rates of 1% to 3% into the 4% range and higher. Leasing activity in all of the Southern California markets is off approximately 20% from its "gold rush" pace of 2021.

Overall, San Diego is a strong, healthy, industrial market due to its diversified tenant base and limited supply. Historically, the end of a real estate up-cycle is characterized by an over-supply of new inventory coupled with waning demand for space. This time around, development was hampered by the scarcity of available land suitable for industrial development. So, supply and demand seem to be returning to "normal" without a sudden correction. Finally, the market is returning to a balance point where tenants and buyers once again have bargaining power and a choice of quality buildings that will help them increase operational efficiency.

The investment sales market has been heavily impacted by the increase in mortgage interest rates. Buyers are looking for higher returns due to increased debt costs and slowing rent growth, while sellers are waiting for rates to move back down, hoping that will increase buyer activity and get prices moving up again.

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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