

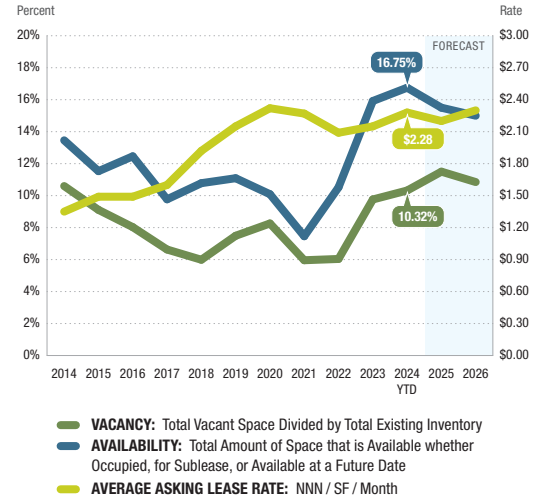
OVERVIEW. Following two consecutive years of positive net absorption in 2021 and 2022, the Flex/R&D market has seen negative net absorption in every quarter since the start of 2023, and a substantial increase in the vacancy and availability rates. The Flex/R&D market in San Diego is driven by the biotech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

VACANCY & AVAILABILITY. Direct/sublease space (unoccupied) finished Q1 2024 at 10.3%, a substantial increase of 38% from Q1 2023's vacancy rate of 7.5%. Yet this is still well below the vacancy rate from the trough reached during the Great Recession when the countywide vacancy rate finished 2011 above 16%. Direct/sublease space being marketed was 16.8% at the end of Q1. The availability rate saw a 43% 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. 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 Q1 2024 at 3.8%.

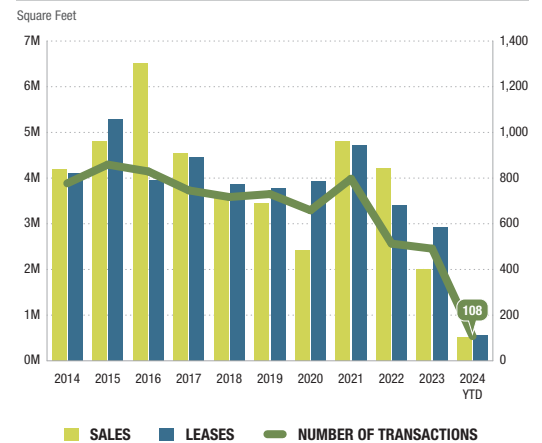
LEASE RATES. The average asking triple net lease rate per square foot per month in San Diego County was \$2.28 at the end of Q1 2024, which is an increase of 4.1% from Q1 2023. The average asking lease rate has been on a long-term trend of increases, but dramatic swings in the average often occur due to a change in the composition of available space. Over the past ten years the countywide asking rental rate has increased nearly 70%, 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 1.0 MSF, a 48% decrease from the 1.9 MSF transacted in Q1 2023. There were 559,818 SF of Flex/R&D space leased in 88 transactions recorded in Q1. These figures were far below the five-year averages of 134 transactions and 937,879 SF leased per quarter. Breakthrough Properties was active in Q1 with a large 230,133 SF lease to Pfizer in Del Mar Heights. Additionally, Breakthrough Properties acquired 65% interest in a 173,311 SF Torrey Pines campus. The property is leased to Bristol-Myers Squibb subsidiary Turning Point Therapeutics through 2035 but is currently on the market for sublease. This \$153.4M transaction pushed the quarterly sales volume into a range in line with historical norms.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



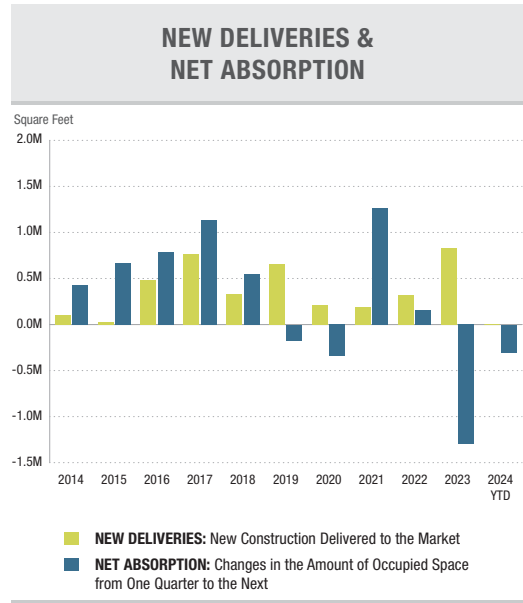
Market Statistics

	Change Over Last Quarter	Q1 2024	Q4 2023	Q1 2023	% Change Over Last Year
Vacancy Rate	▲ UP	10.32%	9.76%	7.47%	38.12%
Availability Rate	▲ UP	16.75%	15.92%	11.72%	42.95%
Average Asking Lease Rate	▲ UP	\$2.28	\$2.15	\$2.19	4.11%
Sale & Lease Transactions	▼ DOWN	1,019,657	1,224,131	1,963,957	(48.08%)
Gross Absorption	▼ DOWN	666,361	855,980	703,400	(5.27%)
Net Absorption	▼ NEGATIVE	(303,606)	(33,109)	(445,274)	N/A

ABSORPTION. The San Diego Flex/R&D market recorded 303,606 SF of negative net absorption in Q1, following 1,298,682 SF of negative net absorption in 2023. The decrease in the total Flex/R&D footprint was spread throughout the county, with no submarket cluster seeing significant positive net absorption in Q1. 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 Q1 there were 2.3 MSF under construction or lab conversion, with 73% 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 Q1 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 4.7% in February 2024, unchanged from a revised 4.7% in April 2023, and above the year-ago estimate of 3.7%. This compares with an unadjusted unemployment rate of 5.6% for California and 4.2% for the nation during the same period. Over the 12-month period between February 2023 and February 2024, San Diego County employment increased by 13,600 jobs, an increase of 0.9%. 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, 303,000 jobs were added in March, exceeding consensus expectations.



Forecast

It is evident that the supply of biotech conversions has outpaced tenant demand currently in the market. Growth in the biotech sector is heavily reliant upon large capital infusions, and not only will this capital be more difficult to source during a macroeconomic malaise, but also it will demand higher yields in response to rising interest rates. We anticipate a growing increase in vacancy as the surge of life-science development and redevelopments centered around UCSD reach fruition.

Significant Transactions

Sales						* Voit Real Estate Services Deal
Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller	
3020-3030 Callan Rd. (65% Interest)	Torrey Pines	173,311	\$153,400,000	Breakthrough Properties, LLC	Healthpeak Properties	
10140 Mesa Rim Rd.	Sorrento Mesa	42,547	\$23,000,000	Biotest CJ Investment, LLC*	10140 Mesa Rim Property, LLC	
4141 Ruffin Rd.	Kearny Mesa	31,312	\$11,645,000	DuWright Holdings Ruffin, LLC	MLB Real Estate, LLC	
1825 Aston Ave.	Carlsbad	18,485	\$10,500,000	Dempsey Construction	Buena Vista Trust	
9560 Waples St.	Sorrento Mesa	19,618	\$9,100,000	Hammer Ventures	Ohana Kala, LLC*	

Leases					
Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
11208 El Camino Real	Del Mar Heights	230,133	Mar-2024	Pfizer	Breakthrough Properties, LLC
9440 Carroll Park Dr.	Miramar	97,162	Mar-2024	Acon Laboratories	(Sublease)
9805 Scranton Rd.	Sorrento Mesa	38,506	Jan-2024	Undisclosed	Alexandria Real Estate Equities
6225 Nancy Ridge Dr.	Miramar	27,450	Feb-2024	Undisclosed	(Sublease)
6779 Mesa Ridge Rd.	Sorrento Mesa	24,641	Mar-2024	Digital Force Technologies	Jewell Capital

	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 2024	Square Feet Available	Availability Rate Q1 2024	Average Asking Lease Rate	Net Absorption Q1 2024	Net Absorption 2024	Gross Absorption Q1 2024	Gross Absorption 2024
Central													
Central City	14	188,791	0	0	38,564	20.43%	40,404	21.40%	\$1.80	(6,400)	(6,400)	0	0
East City	3	373,020	0	0	0	0.00%	0	0.00%	-	0	0	0	0
Southeast City	23	249,696	0	0	0	0.00%	2,000	0.80%	-	2,000	2,000	2,000	2,000
Kearny Mesa	204	5,473,717	0	5,400	250,199	4.57%	439,607	8.03%	\$1.67	(32,105)	(32,105)	44,603	44,603
Mission Gorge	27	278,007	0	0	3,266	1.17%	3,266	1.17%	\$2.09	(3,266)	(3,266)	0	0
Rose Canyon/Morena	37	582,288	0	0	35,163	6.04%	57,009	9.79%	\$1.83	(4,428)	(4,428)	28,142	28,142
Sports Arena/Airport	33	426,087	0	0	71,664	16.82%	71,664	16.82%	\$1.87	1,224	1,224	1,224	1,224
Miramar	218	4,853,514	0	0	296,844	6.12%	554,145	11.42%	\$1.99	(27,843)	(27,843)	48,793	48,793
Sorrento Mesa	175	8,043,907	1,460,663	662,196	1,613,432	20.06%	3,340,896	35.15%	\$4.35	101,892	101,892	215,169	215,169
Sorrento Valley	113	2,744,905	0	0	523,992	19.09%	671,426	24.46%	\$2.50	(55,213)	(55,213)	30,685	30,685
Torrey Pines/UTC	82	7,171,428	540,514	340,000	961,805	13.41%	1,606,238	20.83%	\$4.26	(102,512)	(102,512)	84,806	84,806
Central County Total	929	30,385,360	2,001,177	1,007,596	3,794,929	12.49%	6,786,655	20.96%	\$2.73	(126,651)	(126,651)	455,422	455,422
East County													
El Cajon	79	895,272	0	0	26,600	2.97%	44,681	4.99%	\$1.46	(3,915)	(3,915)	0	0
La Mesa/Spring Valley	43	301,259	0	60,000	7,500	2.49%	7,500	2.49%	\$1.75	(2,500)	(2,500)	0	0
Santee/Lakeside	53	601,956	0	0	0	0.00%	6,227	1.03%	\$1.40	14,812	14,812	14,812	14,812
Rural East County	22	95,520	0	0	0	0.00%	0	0.00%	-	0	0	0	0
East County Total	197	1,894,007	0	60,000	34,100	1.80%	58,408	3.08%	\$1.48	8,397	8,397	14,812	14,812
North County													
Escondido	83	776,995	0	0	44,395	5.71%	54,348	6.99%	\$1.44	0	0	0	0
Oceanside	33	966,298	0	0	31,183	3.23%	42,380	4.39%	\$1.61	(20,089)	(20,089)	0	0
San Marcos	56	1,054,187	0	0	17,848	1.69%	48,519	4.60%	\$1.32	13,822	13,822	16,911	16,911
Vista	63	1,393,645	0	0	118,687	8.52%	206,243	14.80%	\$1.39	5,479	5,479	16,639	16,639
Carlsbad	264	7,411,504	165,000	67,714	832,558	11.23%	1,331,177	17.57%	\$1.76	(132,844)	(132,844)	101,000	101,000
North Beach Cities	18	157,559	0	0	5,240	3.33%	5,240	3.33%	\$2.97	0	0	0	0
Rural North County	20	150,487	0	0	2,950	1.96%	8,250	5.48%	\$1.00	(1,300)	(1,300)	0	0
North County Total	537	11,910,675	165,000	67,714	1,052,861	8.84%	1,696,157	14.05%	\$1.62	(134,932)	(134,932)	134,550	134,550
I-15 Corridor													
Poway	62	2,114,628	0	0	33,801	1.60%	99,182	4.69%	\$1.83	(5,059)	(5,059)	8,447	8,447
Rancho Bernardo	100	4,711,980	0	0	471,078	10.00%	579,431	12.30%	\$1.98	4,447	4,447	36,005	36,005
Scripps Ranch	32	1,061,014	0	100,000	149,571	14.10%	149,571	14.10%	\$1.68	(49,855)	(49,855)	0	0
I-15 Corridor Total	194	7,887,622	0	100,000	654,450	8.30%	828,184	10.50%	\$1.95	(50,467)	(50,467)	44,452	44,452
South County													
Chula Vista	81	1,473,880	0	0	38,313	2.60%	52,359	3.55%	\$1.66	(3,193)	(3,193)	13,885	13,885
National City	24	321,727	0	0	4,032	1.25%	7,570	2.35%	\$1.68	3,240	3,240	3,240	3,240
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	4,175	4.81%	0	0.00%	-	0	0	0	0
South County Total	117	2,038,845	0	0	46,520	2.28%	59,929	2.94%	\$1.66	47	47	17,125	17,125
San Diego County Total	1,974	54,116,509	2,166,177	1,235,310	5,582,860	10.32%	9,429,333	16.75%	\$2.28	(303,606)	(303,606)	666,361	666,361

Lease rates are on a triple-net basis.



2024 Will Be Interesting

by **Greg Marx**

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The year 2024 is turning into an interesting year, with the commercial real estate industry continuing to hold its breath as we wait to see how the upcoming months will play out. Q1, unfortunately, was relatively unfruitful in terms of unraveling many questions that we had on a macro level. Aspects of the overall economy remain uncertain as inflation persists, despite some indication of it lowering. In turn, this has caused interest rates to hold firm rather than decreasing as previously hoped. An election year always comes with a little extra uncertainty, but many of us still expect some sort of reprieve in terms of declining rates.

Transaction volume for industrial sales and leasing has remained relatively stagnant compared with previous years. We saw a handful of property trades in central county through Q1, compared to only one or two each in the preceding quarters. Recent activity of note in Central County includes the large business park sales of Cabrillo Business Park purchased by HG Fenton and Canyon Industrial Center purchased by BKM Capital Partners, which each traded for more than \$350 per square foot.

Additionally, owner-user building purchases are up, which is surprising given interest rates where they are. In talking to one buyer who owns a large flooring business he relayed, "I am starting to realize these new interest rates are here to stay, it's unlikely we will ever see 2-3% interest rates again. At the end of the day, I want to buy and occupy because my current lease rate is just too expensive." This reflects the current reality in the market — everything in San Diego has gotten more expensive, whether you prefer to lease or purchase.

Things are a bit slower on the leasing side. In late 2023 we saw a large amount of negative absorption out of the Central County markets, which has now spilled over into the start of 2024. The result is that the constant rise of rental rates is tapering off, and available spaces are sitting on the market a bit longer than they used to. This is minimally true in the smallest size ranges and most visible in the largest size ranges. Landlords are focusing on cash flow and retaining tenants even if they have to shorten the term or lower the leasing rate a little.

There is some new industrial distribution construction underway in Central County, which is rare. Caprock Partners are beginning on an 85,000 SF high bay, concrete tilt-up distribution center on Nancy Ridge Drive in Sorrento Mesa expected to be open for business in January 2025. In central Kearny Mesa, Rexford Industrial is in the middle of construction on a 123,495 SF distribution facility expected to be completed in Q3 2024. Given the slowdown in the largest size ranges, it will be interesting to see how quickly these sites lease up.

Notwithstanding the headwinds in sales and leasing, San Diego still has single-digit vacancy countywide (5.4%) and Central County remains below 4%. We've seen an unprecedented market through the last decade given the rise in building values and rental rates, and now it seems as if we're on a plateau.

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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.

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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