

MARKETBEAT SAN DIEGO



Life Sciences Q1 2022

	YoY Chg	12-Mo. Forecast
5.5% Vacancy Rate	▼	▼
215K Net Absorption, SF	▲	▲
\$5.27 Asking Rent, PSF	▲	▲

(Direct, All Property Classes)

ECONOMIC INDICATORS Q1 2022

	YoY Chg	12-Mo. Forecast
1.49M San Diego Employment	▲	▲
4.9% San Diego Unemployment Rate	▼	▼
3.6% U.S. Unemployment Rate	▼	▼

Source: BLS

ECONOMIC OVERVIEW

The total nonfarm employment in San Diego grew by 104,300 or +7.5% year-over-year (YOY) between February 2021 through February 2022.¹ All employment sectors are expected to grow at a combined rate of 4.7% (+66,010 jobs) in 2022. San Diego's economy of \$252.7 billion as measured by gross regional product is forecasted to grow 3.9% in 2022 and 3.5% in 2023, above its 10-year average of 3.1%.² The life sciences industry sector accounts for over 72,000 direct employment in San Diego County. Average annual earnings equal nearly \$127,000. Research and manufacturing represent 45% of life sciences direct employment, with biotechnology following at about 18% of direct employment. Medical devices and equipment represent 17% and biopharmaceuticals represent almost 14% of life sciences direct employment, with scientific research/tools making up 6% and food and agriculture making up about 0.1%. Considering all ripple and multiplier effects, life sciences in San Diego County generate \$27.7 billion in GRP and \$47.8 billion in total business sales. Additionally, including all multipliers, the life sciences industry was responsible for almost 178,000 jobs with total earnings of \$16 billion.³

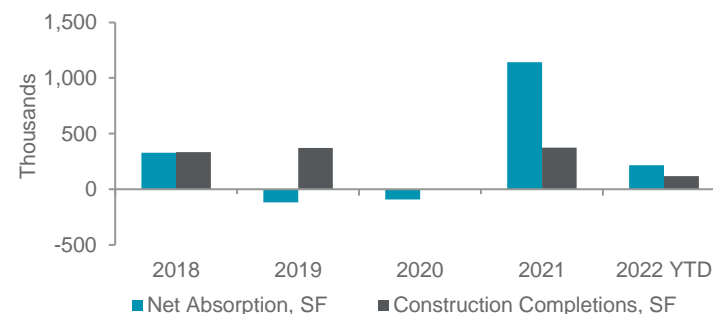
SUPPLY AND DEMAND

At the end of Q1 2022, San Diego's direct life sciences vacancy was 5.5%, a decrease of 60 basis points (bps) from the previous quarter and 310 bps from a year ago. Tenants absorbed 215,316 square feet (sf) in Q1 2022, recording the fifth consecutive quarter of occupancy gains. Torrey Pines recorded the most occupancy gains in Q1 2022 (+117,929 sf), followed by Sorrento Mesa (+36,382 sf) and Sorrento Valley (+35,621 sf). Zentalis Pharmaceuticals and Arcturus, occupying two of the newly delivered buildings at the Boardwalk, were the primary drivers of occupancy gains, with many smaller tenants occupying incubator space throughout the market.

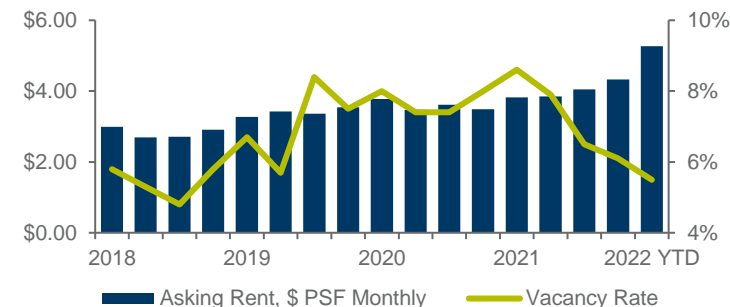
TENANT TRENDS

Direct space availability in traditional life sciences submarkets is down to record levels, with 2.9% availability in Torrey Pines and 0.5% available in UTC. As a result, tenants have pushed east to Sorrento Mesa (10.9% availability) and Sorrento Valley (11.2% availability). Availability is anticipated to drop further in 2022 once several tenants who have signed or are in active lease negotiations occupy their new facilities. In Q1 2022, three leases accounted for over three-quarters of new leasing activity. Neurocrine Biosciences leased 535,000 sf at Aperture Del Mar, taking the two recently completed office buildings and as well as another two buildings expected to be completed by 2025. Bristol Myers Squibb committed to a 426,927-sf build-to-suit (BTS) in Campus Point. In Torrey Pines, Singular Genomics signed a lease for 205,666 sf BTS at One Alexandria Square South.

SPACE DEMAND / DELIVERIES



DIRECT VACANCY / ASKING RENT



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Other large deals include Halozyme Therapeutics, taking the former Seismic space at Del Mar Corporate Centre, PetDx leasing 64,652 sf at Sorrento Heights for a lab conversion and Helix taking 31,966 sf in Sorrento Valley.

PRICING

Countywide asking rent across all classes increased by 21.7% from \$4.33 last quarter to \$5.27 per square foot (psf) on a monthly triple-net basis in Q1 2022. The average asking rent increased by \$1.45 or 38.0% from a year ago. Sorrento Valley remains a more affordable option for small tenants, while North County provides options for tenants in need of production uses. However, effective rents are now significantly higher than asking rents as tenants gravitate towards quality existing space or simply work with landlords to build their own space. Deals for new space are frequently in the upper \$4-range and can break above \$5 and \$6 triple-net for new buildings.

FUTURE INVENTORY

Of the 18 properties, totaling over 3.7 million square feet (msf) currently under construction countywide, 36.5% are pre-leased and 341,900 sf (two buildings) are expected to be delivered by the end of 2022. The majority or 67% of inventory is speculative, with the remaining 33% BTS. Large tenant activity is expected to fuel life sciences development over the next few years, including the 163,000-sf BTS Sorrento Therapeutics building in Sorrento Mesa and Turning Point Therapeutics lease in Torrey Pines.

With extremely low availability in Torrey Pines and UTC, tenants and landlords are required to seek opportunities outside of the traditional life sciences nucleus. Though biotech landlords continue to acquire projects in Sorrento Valley and Sorrento Mesa for life sciences conversion or redevelopment, they are also looking in surrounding submarkets such as I-15 Corridor and Downtown.

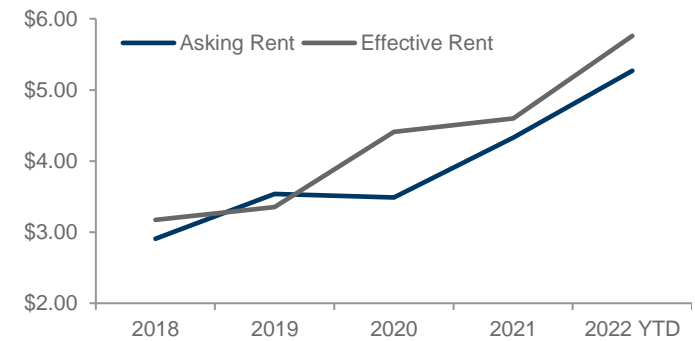
Life sciences acquisitions, conversions and redevelopment continue to try to meet high demand in San Diego. Outside of the traditional submarkets, Phase 3 Real Estate began conversion to a lab of Champs Plaza in Del Mar Heights and Scripps Northridge in the I-15 Corridor. In Scripps, Alexandria Real Estate Equities purchased a 54,664-sf office building from an owner-user for potential development. Diminishing supply in the core life sciences submarkets is causing life sciences to expand to new frontiers. Demand is expected to outpace new supply over the next 24 months in the mid-cities, which has led to a strong investor and developer appetite to move forward with proposed development sites.

Sources: ¹www.bls.gov. ²GDP as of 2021. Moody's Analytics economy.com 2/2022. ³Biocom California's 2021 California Economic Impact Report. Data as of 2020. ⁴Pitchbook.

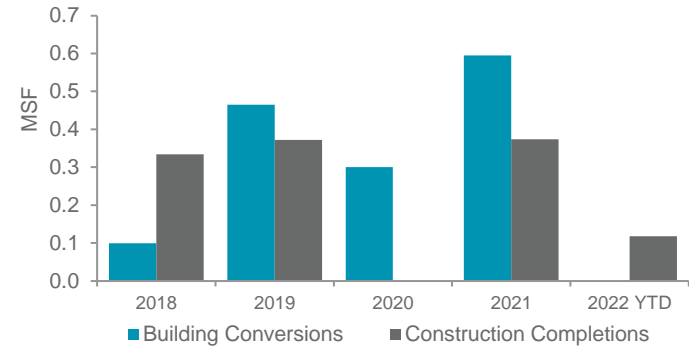
OUTLOOK

- Life sciences venture capital activity slowed in Q1 2022 totaling just \$450 million, a 15% decrease from Q4 2021.⁴ These companies will continue to grow, fueling leasing activity over the next 18 months.
- Life sciences activity from landlords and tenants will continue to put pressure on other product types as limited inventory forces the development of new product or the conversion of existing space to suit lab uses.
- Expansion into non-traditional life sciences submarkets will be inevitable with landlords in Del Mar Heights, Carlsbad, Scripps and Downtown already seeking to convert or construct new lab buildings.

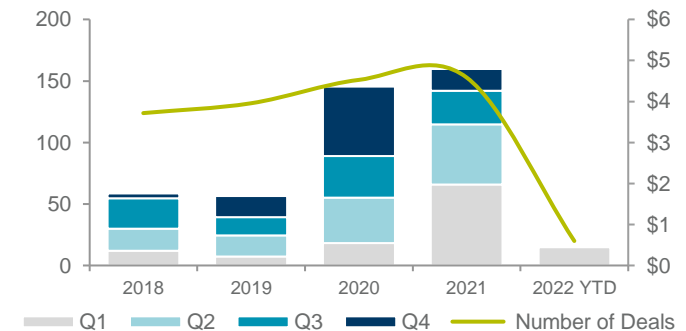
ASKING RENT VS. EFFECTIVE RENT



CONVERSIONS / DELIVERIES



LIFE SCIENCES VENTURE CAPITAL INVESTMENT (\$B)



MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	DIRECT VACANCY RATE	CURRENT QTR DIRECT NET ABSORPTION (SF)	YTD DIRECT NET ABSORPTION (SF)	YTD LEASING ACTIVITY** (SF)	YTD CONSTR COMPLETIONS (SF)	UNDER CNSTR (SF)
North County	1,960,922	0	77,488	4.0%	27,305	27,305	18,485	0	0
Sorrento Mesa	6,187,107	17,816	577,689	9.3%	36,382	36,382	146,784	0	358,640
Sorrento Valley	1,858,882	0	145,663	7.8%	35,621	35,621	67,476	0	0
Torrey Pines	5,857,842	40,864	67,756	1.2%	117,929	117,929	216,202	117,929	331,456
UTC***	3,726,901	0	0	0.0%	18,455	18,455	426,927	0	0
All Other Submarkets	1,907,273	0	305,277	16.0%	-20,376	-20,376	649,685	0	3,007,403
SAN DIEGO TOTALS	21,498,927	58,680	1,173,873	5.5%	215,316	215,316	1,525,559	117,929	3,697,499

*Rental rates reflect triple-net asking. **Renewals not included in leasing statistics. ***UTC includes UTC, Eastgate, and Campus Point submarkets.

KEY LEASE TRANSACTIONS Q1 2022

PROPERTY	SUBMARKET	TENANT	SF	TYPE
Aperture Del Mar	56 Corridor	Neurocrine Biosciences	535,000	New
10010 Campus Point Dr.	Campus Point	Bristol Myers Squibb	426,927	New
10020 Pacific Mesa Blvd.	Sorrento Mesa	BD	318,000	Renewal**
One Alexandria Square South	Torrey Pines	Singular Genomics	205,666	New
Del Mar Corporate Center	Del Mar Heights	Halozyme Therapeutics	76,788	New

KEY SALES TRANSACTIONS Q1 2022

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
BioMed Portolio	Sorrento Mesa / Sorrento Valley / Rose Canyon	BioMed Realty / Oxford Property Group	642,886	\$464.3M / \$722
10509 Vista Sorrento Pky.	Sorrento Mesa	Schnitzer Properties / Healthpeak Properties & Trammel Crow	78,000	\$24.0M / \$308
6138-6150 Nancy Ridge Dr.	Sorrento Mesa	Prandium / Sterling Bay	59,478	\$34.0M / \$572
10256 Meanley Dr.	Scripps	Anchor General Insurance / Alexandria Real Estate Equities	54,664	\$20.5M / \$375
1935 Camino Vida Roble	Carlsbad	Sperry Commercial / Kinovate Life Sciences	40,445	\$7.3M / \$180

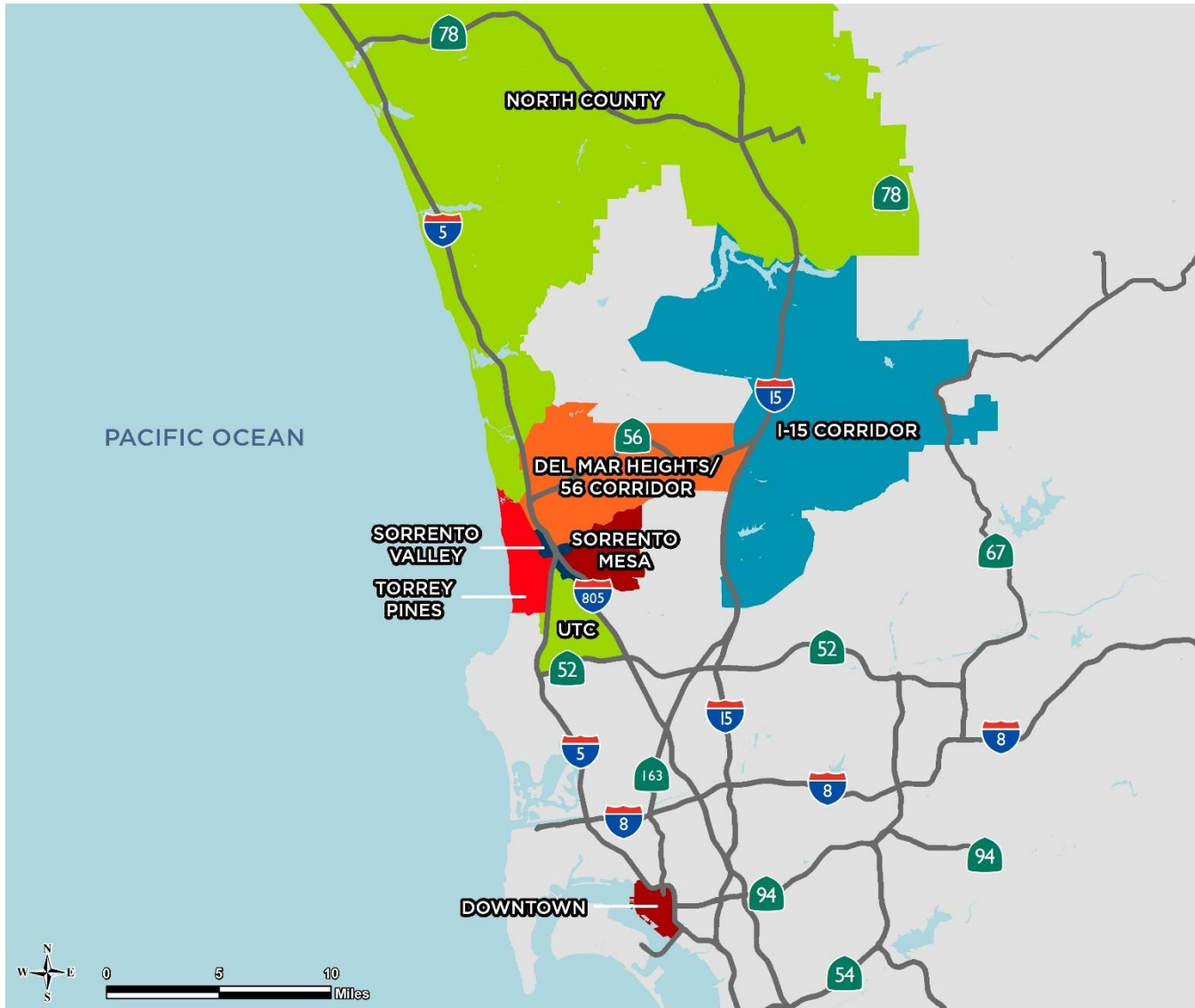
KEY CONSTRUCTION COMPLETIONS 2022 YTD

PROPERTY	SUBMARKET	TENANT	SF	OWNER
The Boardwalk: 10275 & 10285 Bldgs.	Torrey Pines	Zentalis Pharmaceuticals, Arcturus	117,929	Healthpeak Properties

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LIFE SCIENCES SUBMARKETS



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