

# MARKETBEAT SAN DIEGO



## Life Sciences Q3 2022

	YoY Chg	12-Mo. Forecast
<b>5.3%</b> Vacancy Rate	▼	▼
<b>-7K</b> Net Absorption, SF	▲	▲
<b>\$5.40</b> Asking Rent, PSF	▲	▲

*(Overall, All Property Classes)*

### ECONOMIC INDICATORS Q3 2022

	YoY Chg	12-Mo. Forecast
<b>1.5M</b> San Diego Employment	▲	▲
<b>3.1%</b> San Diego Unemployment Rate	▼	▲
<b>3.5%</b> U.S. Unemployment Rate	▼	▲

Source: BLS

### ECONOMIC OVERVIEW

Total nonfarm employment in San Diego grew by 59,600 or +4.1% year-over-year (YOY) between August 2021 and August 2022, with the leisure and hospitality sector accounting for the most significant gains or 25,300 jobs added (+14.1% YOY). During the same time, the monthly unemployment rate decreased from 6.5% last year to 3.4% and is currently 30 basis points (bps) above the quarterly average of 3.1%.<sup>1</sup> All employment sectors are expected to grow at a combined rate of 5.3% (+76,370 jobs) in 2022, while office employment is forecasted to grow by 3.0% (+11,260 jobs) and high-tech employment by 2.9% (+4,140 jobs). The annual unemployment rate is forecasted to decrease from 6.5% in 2021 to 3.6% in 2022 and 3.3% in 2023. San Diego's economy of \$252.1 billion as measured by 2021 gross regional product is forecasted to grow 3.9% in 2022 and 1.9% in 2023.<sup>2</sup> 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.<sup>3</sup>

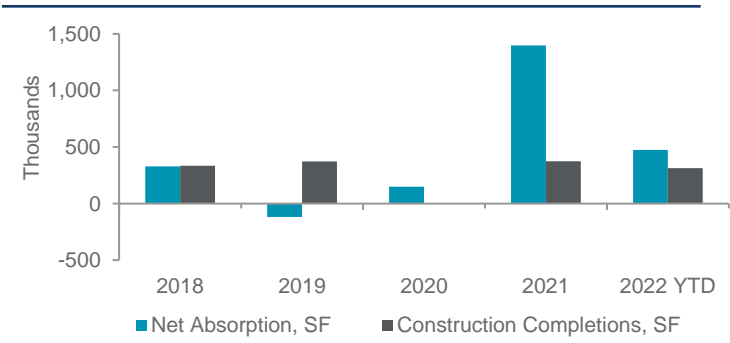
### SUPPLY AND DEMAND

At the end of Q3 2022, San Diego's overall life sciences vacancy, including sublease, was 5.3%, a decrease of 50 bps from the previous quarter and 130 bps from a year ago. Tenants returned 6,944 square feet (sf) in Q3 2022 as a result of increased vacant sublease space coming to market. Absorption was highest outside of the core life sciences markets behind DermTech occupancy of its new headquarters in Del Mar Heights. Other notable occupancies include Inscripta moving into 48,000 sf in Sorrento Mesa, Cibus taking the 32,000 sf Encodiato for sublease at the Labs at Oberlin and Prometheus moving into their remaining 27,000 sf at Muse Torrey Pines.

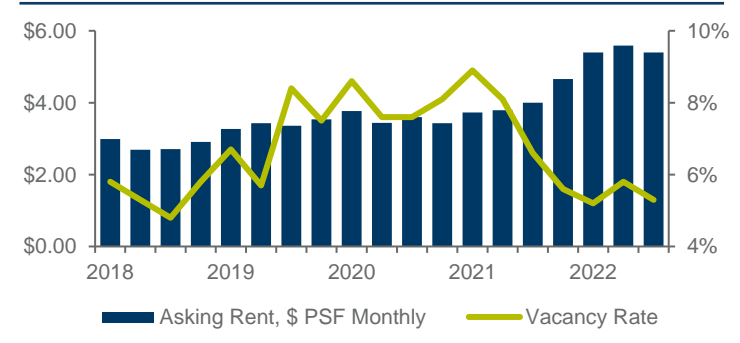
### TENANT TRENDS

Direct space availability in traditional life sciences submarkets is down to record levels, with 4.6% availability in Torrey Pines and 1.0% available in UTC. As a result, tenants have pushed east to Sorrento Mesa (7.3% availability) and Sorrento Valley (6.4%

### SPACE DEMAND / DELIVERIES



### OVERALL VACANCY / ASKING RENT



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availability). Vacancy and availability are anticipated to drop further in 2022 once several tenants who have signed or are in active lease negotiations occupy their new facilities. Crinetics Pharmaceuticals signed the largest life sciences deal of Q3 2022, taking a 94,000-sf building in Sorrento Mesa previously leased to BD. Sorrento Mesa was home to other large deals this quarter, including Maravaie Life Sciences taking Curology's 54,000 sf sublease and Plexium leasing 51,000 sf at Biovista. In Scripps, Phase 3 signed their first lease at their life sciences conversion, with Firmenich taking 38,600 sf.

Countywide overall asking rent across all classes dipped by 3.3% from \$5.59 per square foot (psf) last quarter to \$5.40 psf on a monthly triple net basis in Q3 2022. Though demand for higher-end and newer lab space continues, over 400,000 sf was added to sublease availability causing this quarter's drop in overall asking rents. Sorrento Valley remains a more affordable option for small tenants, while North County provides options for tenants in need of production uses. Rents in Torrey Pines and UTC remain exceptionally high with historically low availability.

## FUTURE INVENTORY

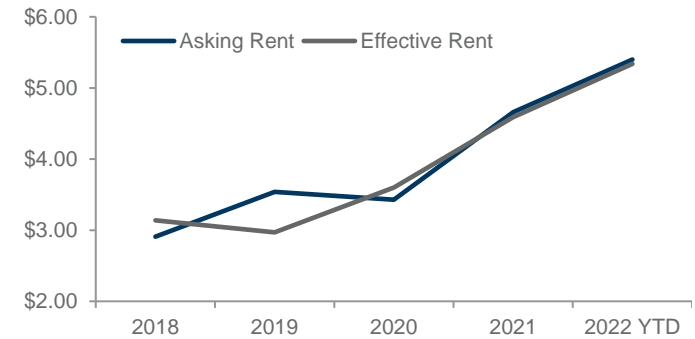
Of the 27 properties, totaling over 4.8 million square feet (msf) currently under construction countywide, 37.5% are pre-leased, and one building totaling 146,500 sf is expected to be delivered by the end of 2022. The majority or 67% of inventory is speculative, with the remaining 33% build-to-suit (BTS). 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 One Alexandria Square campus 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 into surrounding submarkets such as I-15 Corridor and Downtown.

Life sciences acquisitions, conversions and redevelopment continue to try to meet the high demand in San Diego. Diminishing supply in the core life sciences submarkets is causing life sciences to expand to new frontiers. Investors have shown increased interest in North County for potential lab and cGMP conversion, including Tritower Financial Group's acquisition of Atlas in Carlsbad. Notable speculative life science projects breaking ground this quarter include an additional building at Alexandria Tech Center and Longfellow Real Estate Partners's Bioterra project, both in Sorrento Mesa. 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.

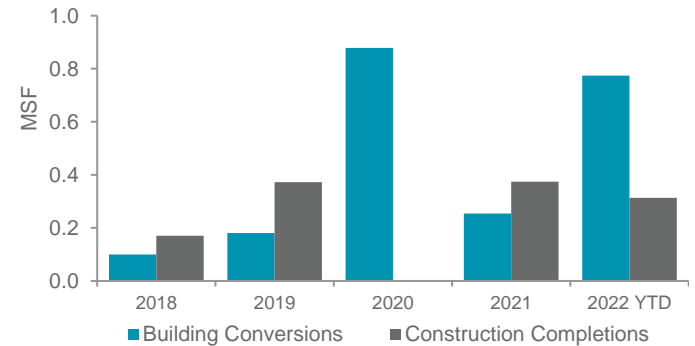
## OUTLOOK

- Life sciences venture capital activity decreased in Q3 2022 totaling over \$466 million, less than half the total raised in Q2 2022 and just under the total recorded in the first quarter.<sup>4</sup> 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.

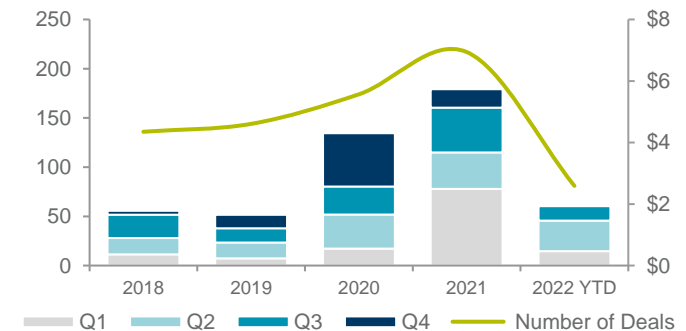
## ASKING RENT VS. EFFECTIVE RENT



## CONVERSIONS / DELIVERIES



## LIFE SCIENCES VENTURE CAPITAL INVESTMENT (\$B)



## MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY** (SF)	YTD CONSTR COMPLETIONS (SF)	UNDER CNSTR (SF)
North County	3,323,605	0	110,975	3.3%	0	-19,770	142,499	0	0
Sorrento Mesa	6,285,123	107,019	562,538	10.7%	-33,006	160,614	528,058	195,435	734,205
Sorrento Valley	1,731,720	44,557	68,290	6.5%	-46,070	31,221	132,837	0	0
Torrey Pines	5,798,761	15,862	44,842	1.0%	11,406	124,981	242,093	117,929	939,708
UTC***	3,728,022	41,977	0	1.1%	-28,275	-23,522	527,880	0	29,874
All Other Submarkets	2,089,586	0	217,365	10.4%	89,001	69,036	958,951	0	3,126,086
<b>SAN DIEGO TOTALS</b>	<b>22,956,817</b>	<b>209,415</b>	<b>1,004,010</b>	<b>5.3%</b>	<b>-6,944</b>	<b>342,560</b>	<b>2,532,318</b>	<b>313,364</b>	<b>4,829,873</b>

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

## KEY LEASE TRANSACTIONS Q3 2022

PROPERTY	SUBMARKET	TENANT	SF	TYPE
6055 Lusk Blvd.	Sorrento Mesa	Crinetics Pharmaceuticals	94,230	New
4767 Nexus Centre Dr.	Eastgate	Illumina	65,280	New
5717 Pacific Center Blvd.	Sorrento Mesa	Maravai Life Sciences	54,232	Sublease
9330 Scranton Rd.	Sorrento Mesa	Plexium	50,831	New
10636 Scripps Summit Ct.	Scripps	Firmenich	38,600	New

## KEY SALES TRANSACTIONS Q3 2022

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
Atlas	Carlsbad	Regent Properties / Tritower Financial Group	230,957	\$88.8M / \$384
7330 & 7360 Carroll Rd.	Miramar	Alexandria Real Estate Equities / GI Partners	81,444	\$60.0M / \$737
5752 Oberlin Dr.	Sorrento Mesa	Gregory McQuerter / BioFluidica	17,238	\$5.3M / \$305
5628 Copley Dr.	Kearny Mesa	International Union of Operating Engineers / Cell Biolabs	12,120	\$5.5M / \$450
11403 W. Bernardo Ct.	Rancho Bernardo	The Heath Group / LeGene Biosciences	6,100	\$2.3M / \$376

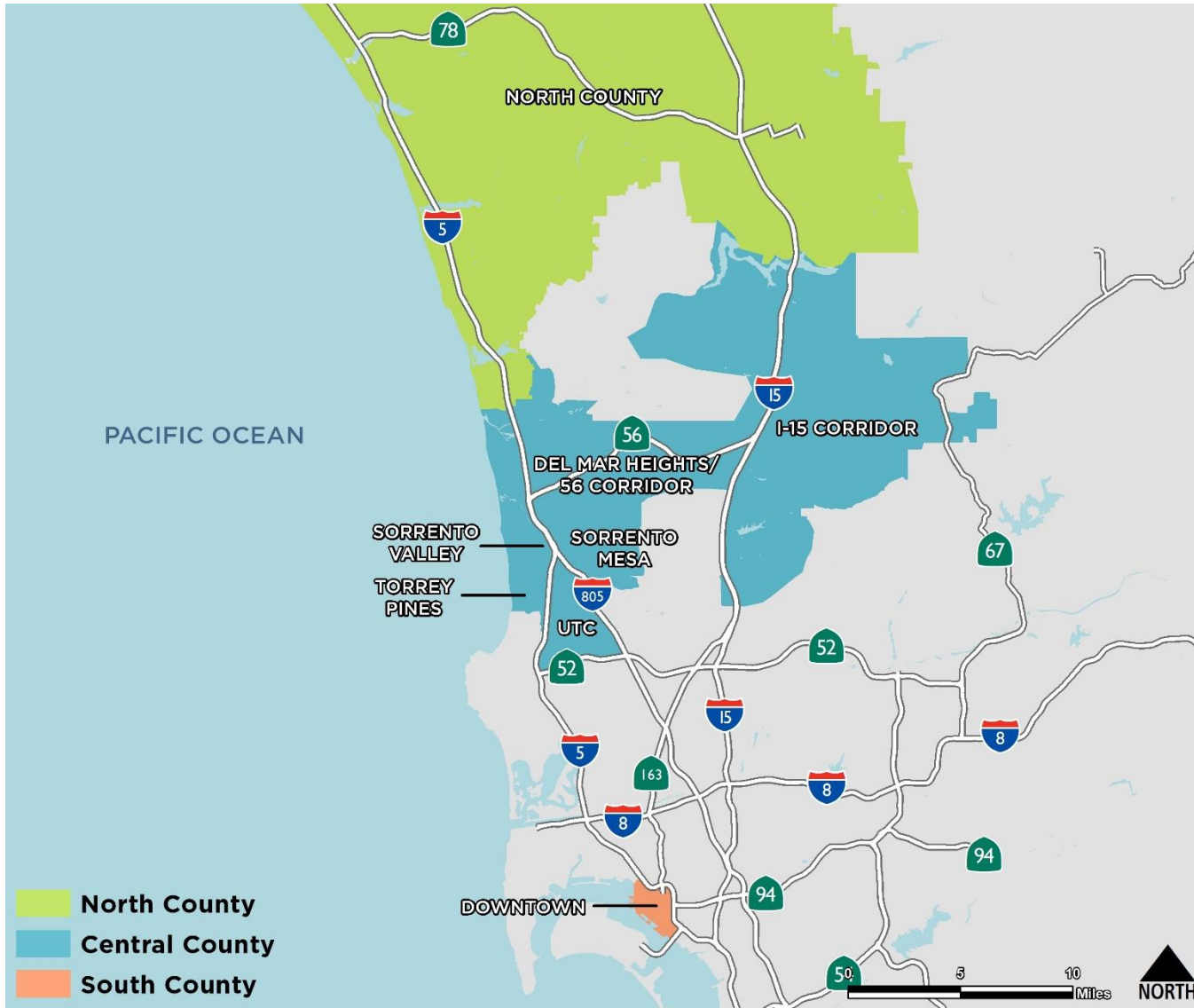
## KEY CONSTRUCTION COMPLETIONS 2022 YTD

PROPERTY	SUBMARKET	TENANT	SF	OWNER
Alexandria Tech Center	Sorrento Mesa	Element Biosciences	195,435	Alexandria
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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