

	YoY Chg	12-Mo. Forecast
5.3% Vacancy Rate	▼	▼
104K Net Absorption, SF	▲	▲
\$5.06 Asking Rent, PSF	▲	▲

(Overall, All Property Classes)

ECONOMIC INDICATORS Q4 2022

	YoY Chg	12-Mo. Forecast
1.5M San Diego Employment	▲	▲
3.2% San Diego Unemployment Rate	▼	▲
3.7% U.S. Unemployment Rate	▼	▲

Source: BLS

ECONOMIC OVERVIEW

The total nonfarm employment in San Diego grew by 48,400 or +3.2% year-over-year (YOY) between November 2021 through November 2022, with the leisure and hospitality sector accounting for the most significant gains (+10.9% YOY), followed by professional and business services (+4.6% YOY). During the same time, the monthly unemployment rate decreased from 4.5% last year to 3.3% and is currently 10 basis points (bps) above the quarterly average of 3.2%.¹ All employment sectors are expected to grow at a combined rate of 0.8% (+12,340 jobs) in 2023. San Diego's economy of \$260.0 billion as measured by 2022 gross regional product is forecasted to grow 1.2% in 2023.²

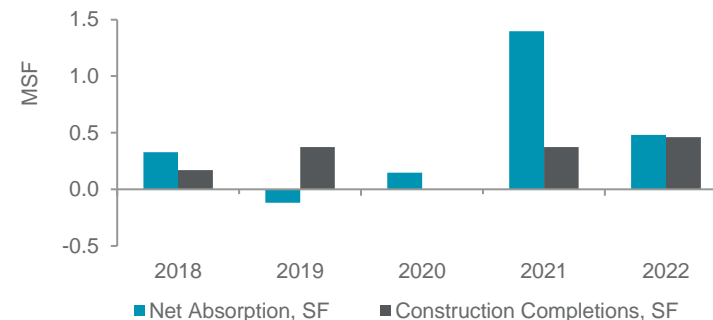
The life sciences industry sector accounts for 71,149 direct and 115,158 total employment in San Diego County. The largest employment sectors are in research & manufacturing and biotechnology, which employ 22,259 and 20,830 workers, respectively. The highest growth sector was biotechnology, which experienced YOY growth of 18.0%, followed closely by biopharmaceutical (+15.4% YOY).

San Diego hosts a vibrant research and development (R&D) environment supported by a deep network of educational institutions. R&D in biotechnology employs more than 21,000 workers in the region and has experienced YOY employment growth of 21.0%. The average wage of an R&D worker in biotechnology is \$188,166 compared to the average wage of an R&D worker in general engineering and life sciences which is \$244,299. Educational institutions in the area employ more than 34,000 workers and experienced employment growth of 5.0% YOY. Considering all ripple and multiplier effects, life sciences in San Diego County directly generate \$33.4 billion in GRP and \$49.8 billion in total output.³

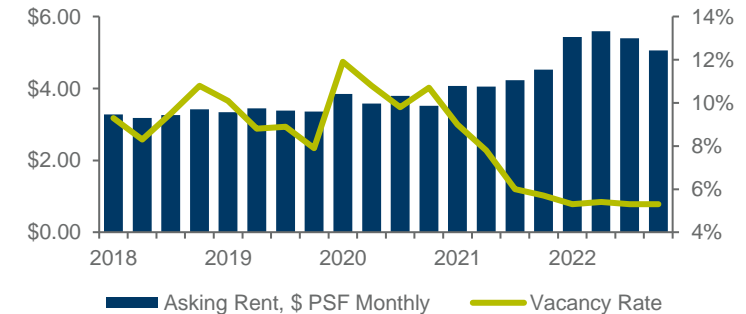
SUPPLY AND DEMAND

At the end of Q4 2022, San Diego's overall life sciences vacancy was 5.3%, unchanged from the previous quarter and down 40 bps from a year ago. Though direct vacancy decreased to 3.6% from the previous quarter, an abundance of new sublease space resulted in sublease vacancy rising 70 bps to 1.6%. As a result, though tenants absorbed 292,706 sf in Q4 2022 on a direct basis, overall absorption was only 104,084 sf. Overall absorption was highest in Torrey Pines where tenants occupied 127,969 sf. Sorrento Mesa also experienced significant absorption with 68,916 sf occupied, primarily as a result of the delivery of the fully leased Spectrum III.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY / ASKING RENT



SAN DIEGO

Life Sciences Q4 2022



TENANT TRENDS

Direct space availability in traditional life sciences submarkets is down to record levels, with 4.6% availability in Torrey Pines and 2.3% available in UTC. As a result, tenants have pushed east to Sorrento Mesa (7.9% availability) and Sorrento Valley (8.7% availability) submarkets. Countywide, the direct availability rate was 5.3% at the end of Q4 2022. Over 300,000 sf of sublease space was added to the market in the past quarter, including one of Illumina's 100,000 sf buildings at i3 in Eastgate and multiple spaces added to the market by Quidel. PetDx put its 65,000-sf space at Sorrento Heights up for sublease prior to their lease commencing. Similarly, following reports of their Acquisition by Bristol Myers Squibb, Turning Point Therapeutics has placed its 186,300-sf build-to-suit (BTS) at Callan Ridge on the market for sublease.

Countywide overall asking rent across all classes dipped by 6.3% from \$5.40 per square foot (psf) last quarter to \$5.06 psf on a monthly triple net basis in Q4 2022 due to these additions to the sublease market. Direct average asking rent remains healthy, growing slightly to \$5.70 psf from the previous quarter. 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

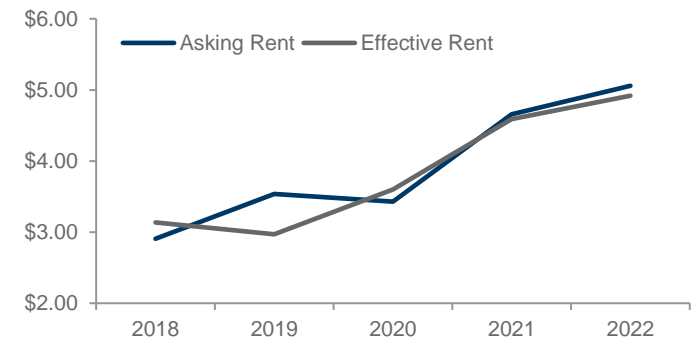
Of the 26 properties, totaling over 4.7 million square feet (msf) currently under construction countywide, 32% are pre-leased, with 16 buildings, totaling nearly 3.0 msf, expected to be delivered by the end of 2023. The majority or 66% of inventory is speculative, with the remaining 34% BTS. Large tenant activity is expected to fuel life sciences development over the next few years, including the 163,000-sf BTS Sorrento Therapeutics building located in Sorrento Mesa and the One Alexandria Square campus in Torrey Pines. Additionally, Ionis Pharmaceuticals committed to a 217,000-sf BTS in Oceanside in Q4 2022. 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. Though venture capital investment has returned to pre-pandemic levels, developers that acquired land remain committed to fulfilling those projects.

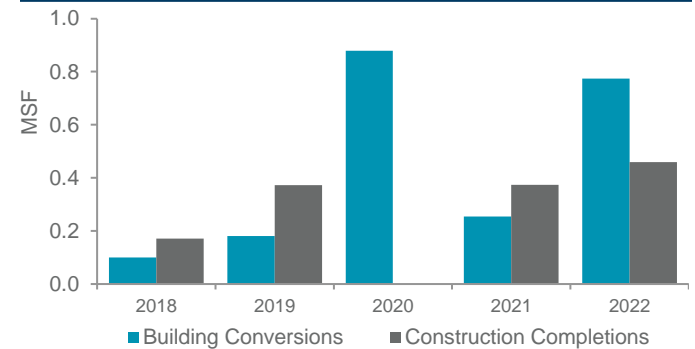
OUTLOOK

- Life sciences venture capital activity decreased in Q4 2022, totaling over \$440 million, a 16.1% decrease from the previous quarter and a 28.8% decrease compared to Q4 2021. This was the lowest quarterly total since Q1 2019.⁴ Though venture capital funding has slowed, it has not fallen below pre-pandemic levels.
- Life sciences activity from landlords and tenants will continue to put pressure on other product types as limited inventory forces the development of a 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.

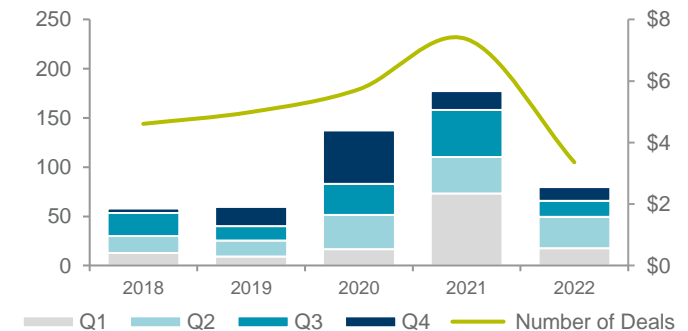
ASKING RENT VS. EFFECTIVE RENT



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	476,253	0	0
Sorrento Mesa	6,294,357	203,167	407,881	9.7%	68,916	230,044	547,818	195,435	734,205
Sorrento Valley	1,734,087	38,604	41,137	4.6%	-10,259	56,075	174,609	0	0
Torrey Pines	5,945,353	28,437	45,389	1.2%	127,969	253,060	242,598	264,385	794,552
UTC***	3,742,530	104,853	17,085	3.3%	-79,961	-103,483	572,972	0	29,874
All Other Submarkets	2,089,586	0	219,946	10.5%	-2,581	66,455	1,125,451	0	3,133,246
SAN DIEGO TOTALS	23,129,518	375,061	842,413	5.3%	104,084	482,381	3,139,701	459,820	4,691,877

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

KEY LEASE TRANSACTIONS Q4 2022

PROPERTY	SUBMARKET	TENANT	SF	TYPE
6290-6350 Sequence Dr.	Sorrento Mesa	Dexcom	351,415	Renewal**
2855 Gazelle Ct.	Carlsbad	Ionis Pharmaceuticals	245,000	Sale-Leaseback
Oceanside @ Rancho del Oro	Oceanside	Ionis Pharmaceuticals	217,000	New
6260 Sequence Dr.	Sorrento Mesa	Accriva Diagnostics	130,536	Renewal**
1155 Island Ave.	Downtown	Excellos	36,000	New

KEY SALES TRANSACTIONS Q4 2022

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
2855 Gazelle Ct.	Carlsbad	Ionis Pharmaceuticals / Oxford Properties Group	245,000	\$258.4M / \$1,055

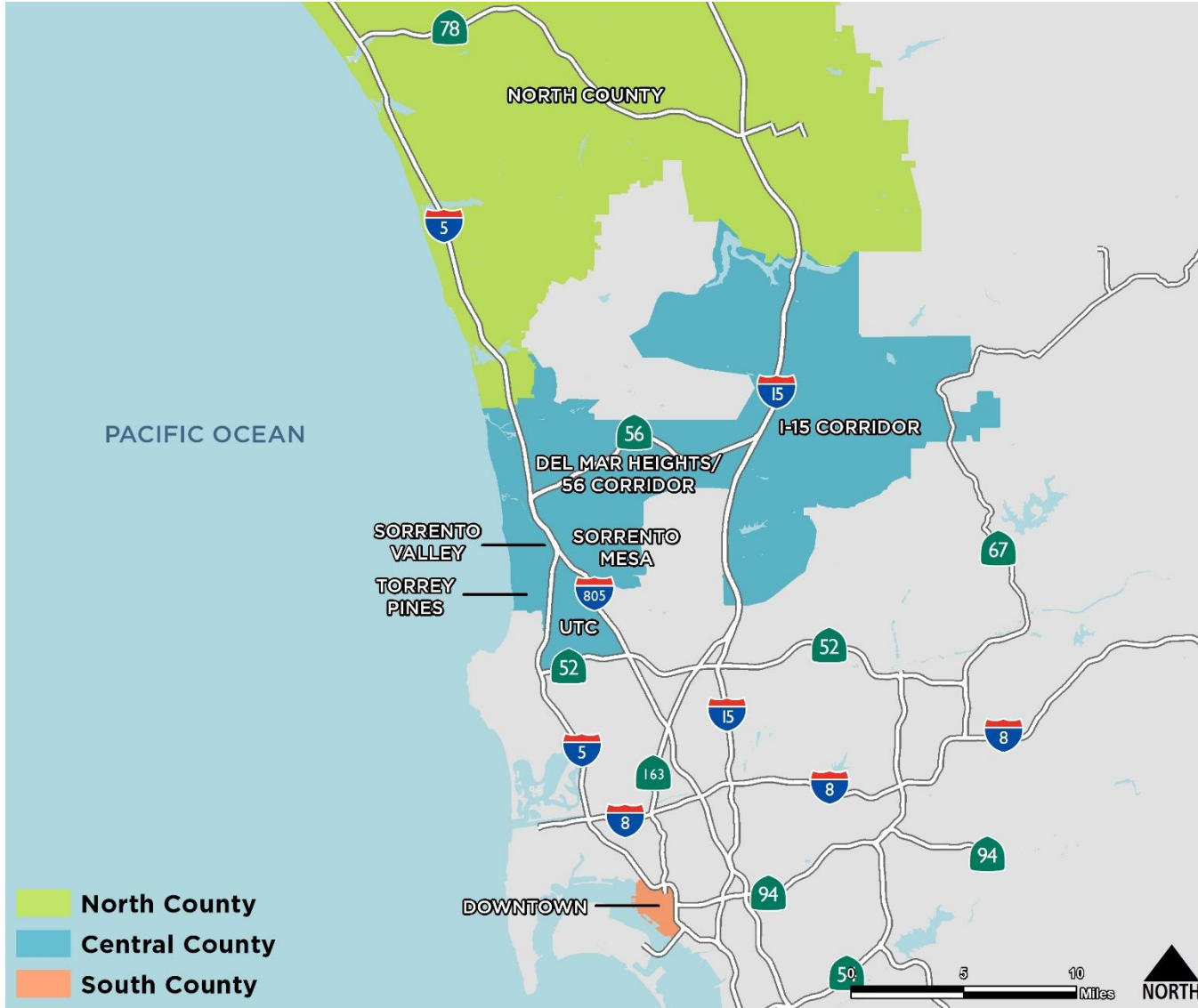
KEY CONSTRUCTION COMPLETIONS 2022

PROPERTY	SUBMARKET	TENANT	SF	OWNER
Alexandria Tech Center	Sorrento Mesa	Element Biosciences	195,435	Alexandria
Spectrum III	Torrey Pines	Erasca, Resilience, 858, Biolabs	146,456	Alexandria
The Boardwalk: 10275 & 10285 Bldgs.	Torrey Pines	Zentalis Pharmaceuticals, Arcturus	117,929	Healthpeak Properties

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Life Sciences Q4 2022

LIFE SCIENCES SUBMARKETS



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