

Market Overview

San Diego Life Sciences

Q4 2023

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Significant Market Impacts

Q4 2023



Net Absorption Continues its Descent

- In Q4, the Central San Diego laboratory market recorded 190,000 sf of positive net absorption, largely due to Torrey View finalizing construction, and adding 290,000 sf of net absorption to Q4. This ends the streak of 4 straight quarters of negative net absorption, which had never happened prior.
- Central San Diego Leasing activity has seen a significant drop from recent levels, as Q4 produced just 219,000 sf (bringing the final 2023 YTD total to 504,000 sf). This coming after averaging nearly 600,000 sf per quarter over the last 3 years.



Construction Activity Hits All-Time High

- There's 4.4 million sf of laboratory product currently under construction, countywide. The vast majority of which is taking place in Sorrento Mesa (1.44M sf) and Downtown (1.8M sf). Of the 2.5M sf under construction in Central San Diego, 40% has been pre-leased (while Downtown has yet to see much interest).



Rental Rates Feeling The Pressure

- Rental rates in Central San Diego have leveled off over the last couple years, as demand has slowed significantly from the highs during the Covid-19 years. Downward pressure on effective rents is growing, as concessions increase. The overall average asking rental rate is essentially flat from year-end 2022, standing at \$6.65 NNN. This figure is a weighted average, and is currently swayed by new construction, that comes with high rates.



VC Funding on the Rise, Though 2023 Still Below 2022 Levels

- Although there has been a slow down in funding since the Covid-19 years, San Diego finished the year at \$2.15B in Life Science funding from 60 deals. This is 68% over the 21-year historical average annually.



Large Pharma Helps Demand Levels

- Demand for lab space remains tepid as we head into 2024, as a cautious approach has kept demand lower than recent years. However, it's been a handful of sizable big pharma requirements that has kept overall demand at a respectable level (1.69 msf at end of Q4), representing 68% of all current requirements in the market. We continue to track many requirements that remain in a holding pattern (per the shaky economic/financial environment), as companies continue to extend their existing cash runway and take a more conservative approach in the short term.



Sublease Remains High

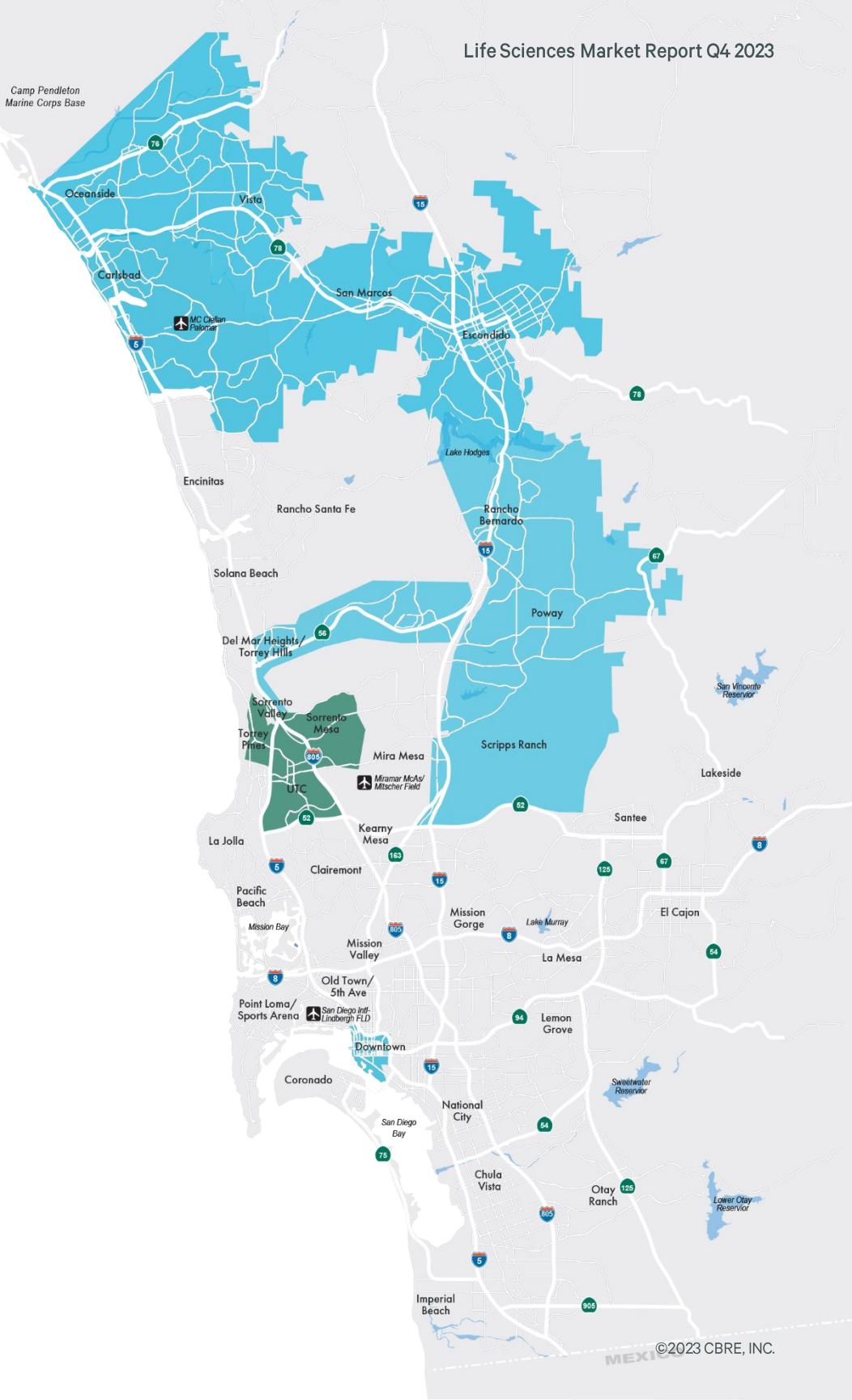
- At the end of Q4, total sublease space on the market remains at over 1 million sf, the large majority of which resides in the core markets, where it accounts for ~34% of all available space. Over the course of 2023, we saw a 133% increase of sublease space, across all markets.

San Diego Metro Life Sciences Clusters

CORE & GROWTH MARKETS OVERVIEW

The demand for life sciences grew substantially during COVID-19, which resulted in an extremely tight market with little availability. This pushed lease rates to an all-time high and encouraged the surge of new and conversion development in both the core and growth markets.

CORE MARKETS	Torrey Pines	17.8M SF Current Total RBA	2.17M SF Under Construction (31% Leased)
	UTC		
	Sorrento Mesa		
	Sorrento Valley		
	Del Mar Heights/Torrey Hills		
GROWTH MARKETS	56 Corridor	6.9M SF Current Total RBA	2.2M SF Under Construction (21% Leased)
	I-15 Corridor		
	Governor Park		
	North County		
	Downtown		

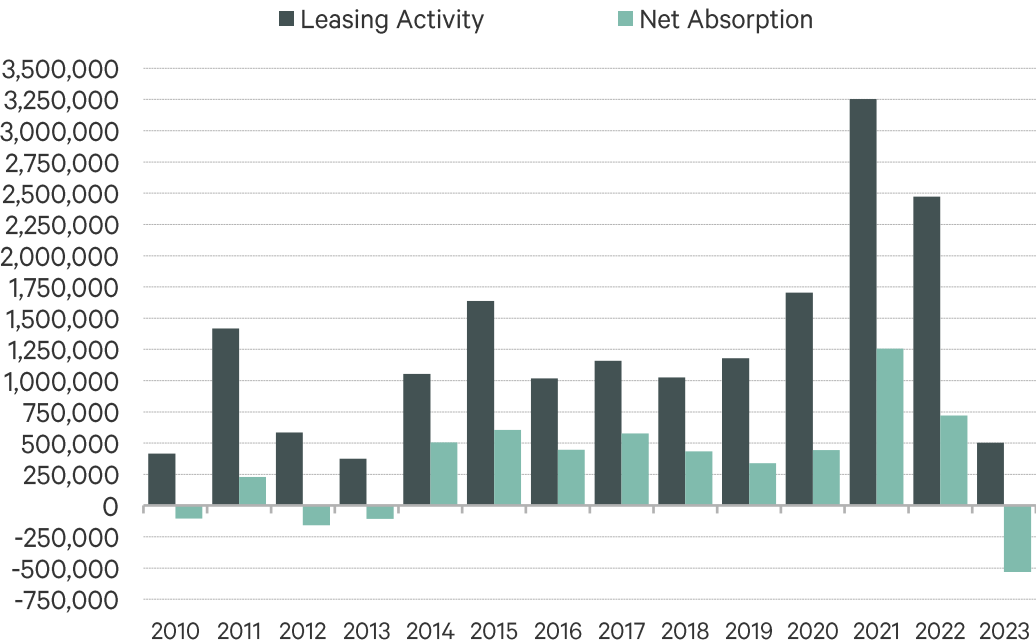


Lab Statistics Overview

ASKING RENT & LEASING ACTIVITY

- Leasing activity increased from 88,445 SF in Q3 to 219,428 SF in Q4 in the Central and Core markets. The overall slowdown is largely attributed to the macroeconomic headwinds that have left most requirements on pause.
- Asking rates have been climbing since 2010 in Central San Diego and increased slightly this quarter to \$6.65 NNN. The previous peak was \$6.64 NNN at the end of Q2 2023.
- The Central Core Markets continue to be the most expensive life science market in the San Diego Metro, particularly Torrey Pines, UTC, and Del Mar Heights/Torrey Hills with asking rates at \$6.91 NNN, \$6.82 NNN, and \$7.03, respectively.

Central San Diego Historical Leasing Activity & Net Absorption



Source: CBRE

Central San Diego Historical Availability & Asking Lease Rate



Source: CBRE

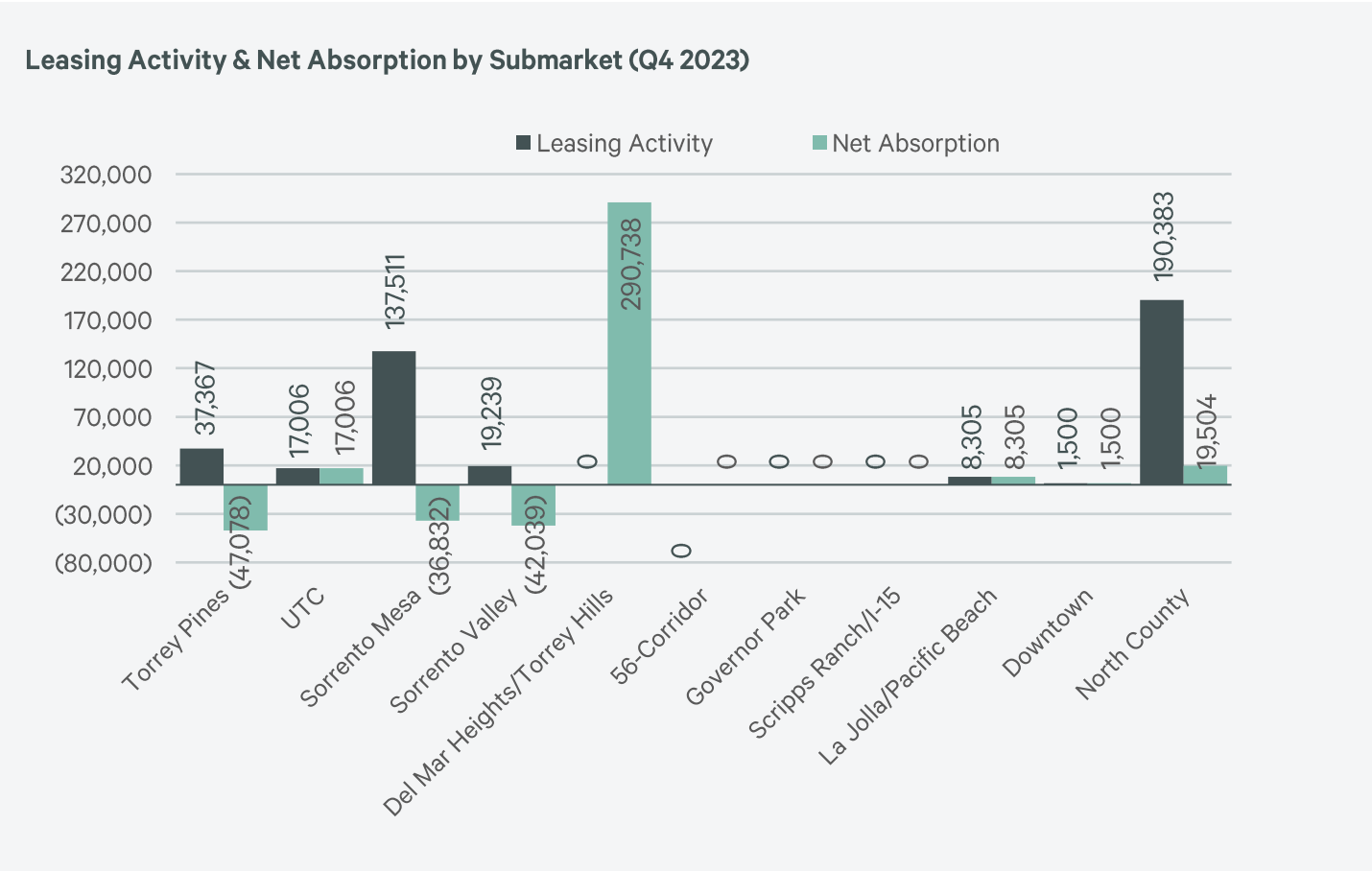
Significant Lease Transactions (Last 12 Mos.)

	TENANT	SQ.FT. LEASED	DEAL TYPE	LOCATION	LANDLORD
1		97,162	New/Sublease	Sorrento Mesa	Irvine Company
2	 Agilent Technologies	49,582	Renewal/Exp.	Torrey Pines	Healthpeak
3	Bolt Medical	47,075	New	Carlsbad	RAF Pacifica
4	 V E L I A	31,079	New	Sorrento Mesa	Alexandria
5	 BAVARIAN NORDIC	30,895	Renewal	Sorrento Mesa	Alexandria
6	 precision diagnostics	30,307	Renewal/Down.	Sorrento Valley	Oxford Properties
7	AR  ITECT THERAPEUTICS	29,734	New	DMH/Torrey Hills	Breakthrough
8	 actio	27,502	Renewal	Sorrento Mesa	Breakthrough
9	 PIPELINE	24,695	New	Torrey Pines	Alexandria
10	 veracyte.	22,497	New/Exp.	Sorrento Mesa	Healthpeak

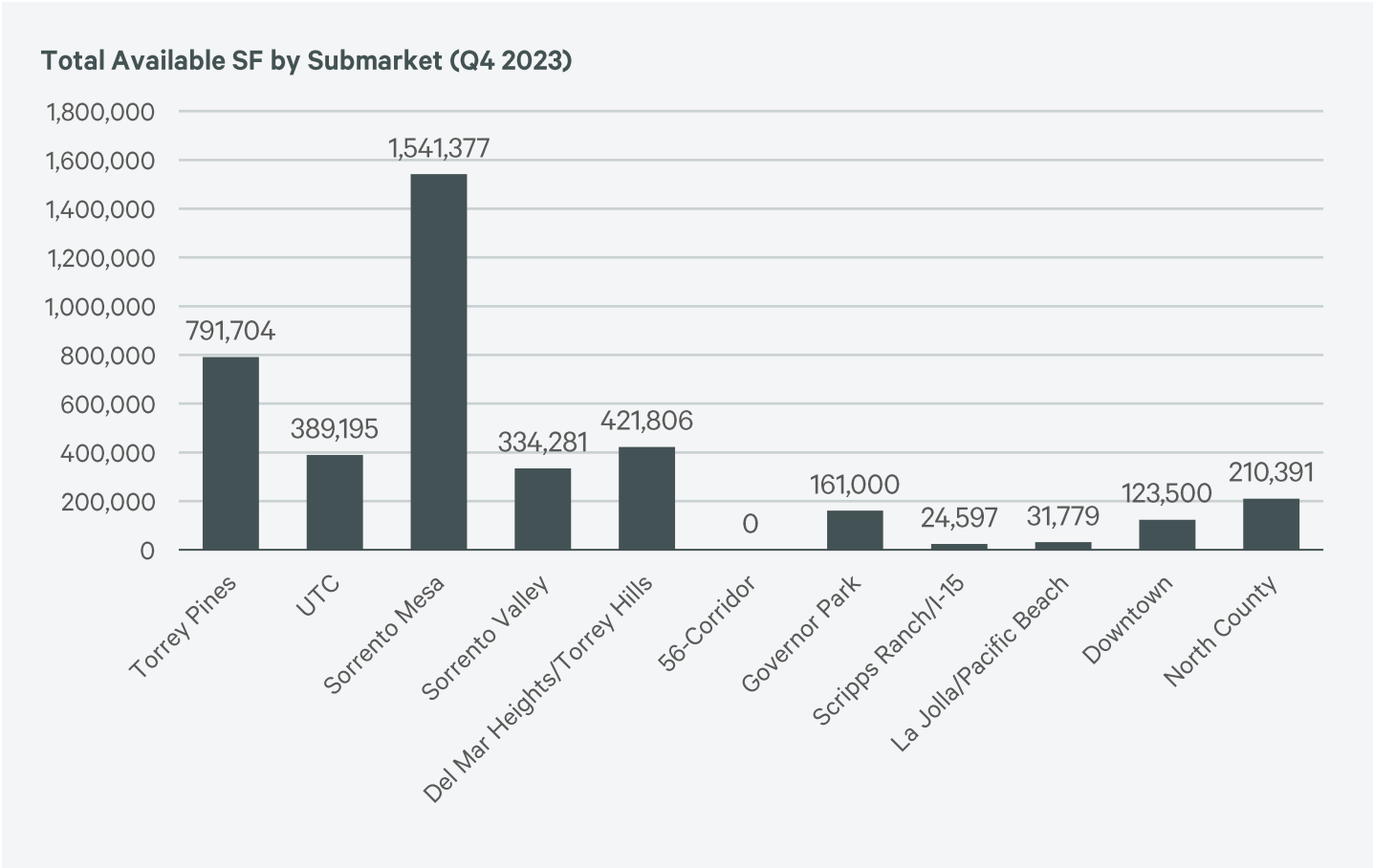
Source: CBRE

Activity & Availability

- North County led this quarter in leasing activity with 190,383 sq. ft. leased, followed by Sorrento Mesa with 137,511 sq. ft., and Torrey Pines with 37,637 sq. ft. of leasing activity.
- Torrey Pines and Sorrento Valley experienced the most negative absorption this quarter with negative 47,078 SF and 42,039 SF of net absorption, respectively.
- Sorrento Mesa has the most available space, at 1,541,377 sq. ft. (23%) of it's 6.6M sq. ft. of net rentable area, up over 900,000 sq.ft. from Q1 2022 with plenty more to come (via new construction).



Source: CBRE



Source: CBRE

Lab Statistics Overview

Q4 2023 MARKET DATA SNAPSHOT

San Diego Metro Life Sciences Market

SUBMARKET	TOTAL RBA	TOTAL VACANT (SQ. FT.)	OVERALL VACANCY (%)	TOTAL AVAILABLE (SQ. FT.)	TOTAL AVAILABLE (%)	AVG. ASKING LEASE RATES (NNN)	UNDER CONSTRUCTION (SQ. FT.)	% COMMITTED (LOI/PRE-LEASED)	* LEASING ACTIVITY (Q4 2023)	NET ABSORPTION (Q4 2023)	* LEASING ACTIVITY (YTD)	NET ABSORPTION (YTD)
Torrey Pines	5,971,154	635,377	10.6%	791,704	13.3%	\$6.91	299,000	72%	37,367	(47,078)	90,914	(313,719)
UTC	3,876,298	265,137	6.8%	389,195	10.0%	\$6.82	427,000	100%	17,006	17,006	58,241	(129,084)
Sorrento Mesa	6,630,998	1,025,581	15.5%	1,541,377	23.2%	\$6.60	1,435,900	2%	137,511	(36,832)	212,732	(318,092)
Sorrento Valley	1,335,636	271,710	20.3%	334,281	25.0%	\$5.87	-	-	19,239	(42,039)	52,040	(159,273)
CORE MARKET TOTALS	17,814,086	2,197,805	12.3%	3,056,557	17.2%	\$6.60	2,161,900	31%	211,123	(108,943)	413,927	(920,168)
Del Mar Heights/Torrey Hills	1,188,150	421,806	35.5%	421,806	35.5%	\$7.03	-	-	0	290,738	86,853	272,683
56-Corridor	229,042	0	0.0%	0	0.0%	-	306,000	100%	0	0	0	0
Governor Park	161,000	161,000	100.0%	161,000	100.0%	\$6.40	-	-	0	0	0	0
Scripps Ranch/I-15	441,543	24,597	5.6%	24,597	5.6%	\$5.50	-	-	0	0	0	144,113
La Jolla/Pacific Beach	176,936	28,200	15.9%	31,779	18.0%	\$4.75	-	-	8,305	8,305	3,039	(27,099)
CENTRAL & CORE TOTALS	20,010,757	2,833,408	14.2%	3,695,739	18.5%	\$6.65	2,467,900	40%	219,428	190,100	503,819	(530,471)
Downtown	203,439	123,500	60.7%	123,500	60.7%	\$5.98	1,773,000	0%	1,500	1,500	8,932	8,932
North County	4,536,021	210,391	4.6%	210,391	4.6%	\$3.64	165,000	100%	190,383	19,504	260,283	(11,681)
OVERALL TOTALS	24,750,217	3,167,299	12.8%	4,029,630	16.3%	\$6.32	4,405,900	26%	411,311	211,104	773,034	(533,220)

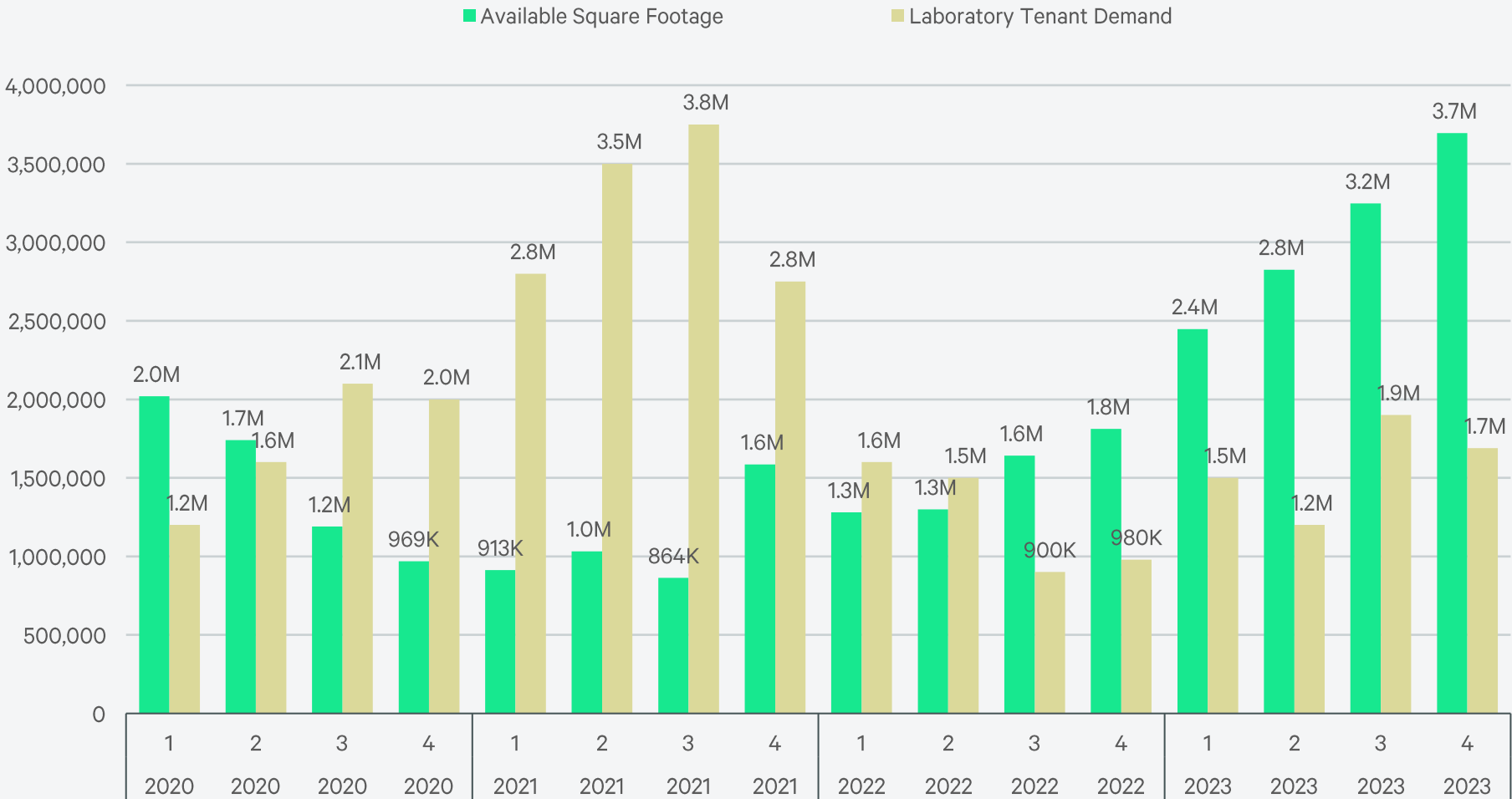
Source: CBRE

Lab Statistics Overview

DEMAND IN THE MARKET

- Demand for lab space increased to 1.7M sq.ft. in Q4 2023. While requirements have increased, many are on hold due to macroeconomic headwinds and VC funding temporarily becoming more selective.
- Expansion from more mature biotechnology and large pharmaceutical companies continues to be a driver of demand in the market.
- In Q4 2023, the total number of tenants in the market stood at 29, totaling 1,690,000 sq.ft.

San Diego Metro Active Lab Requirements

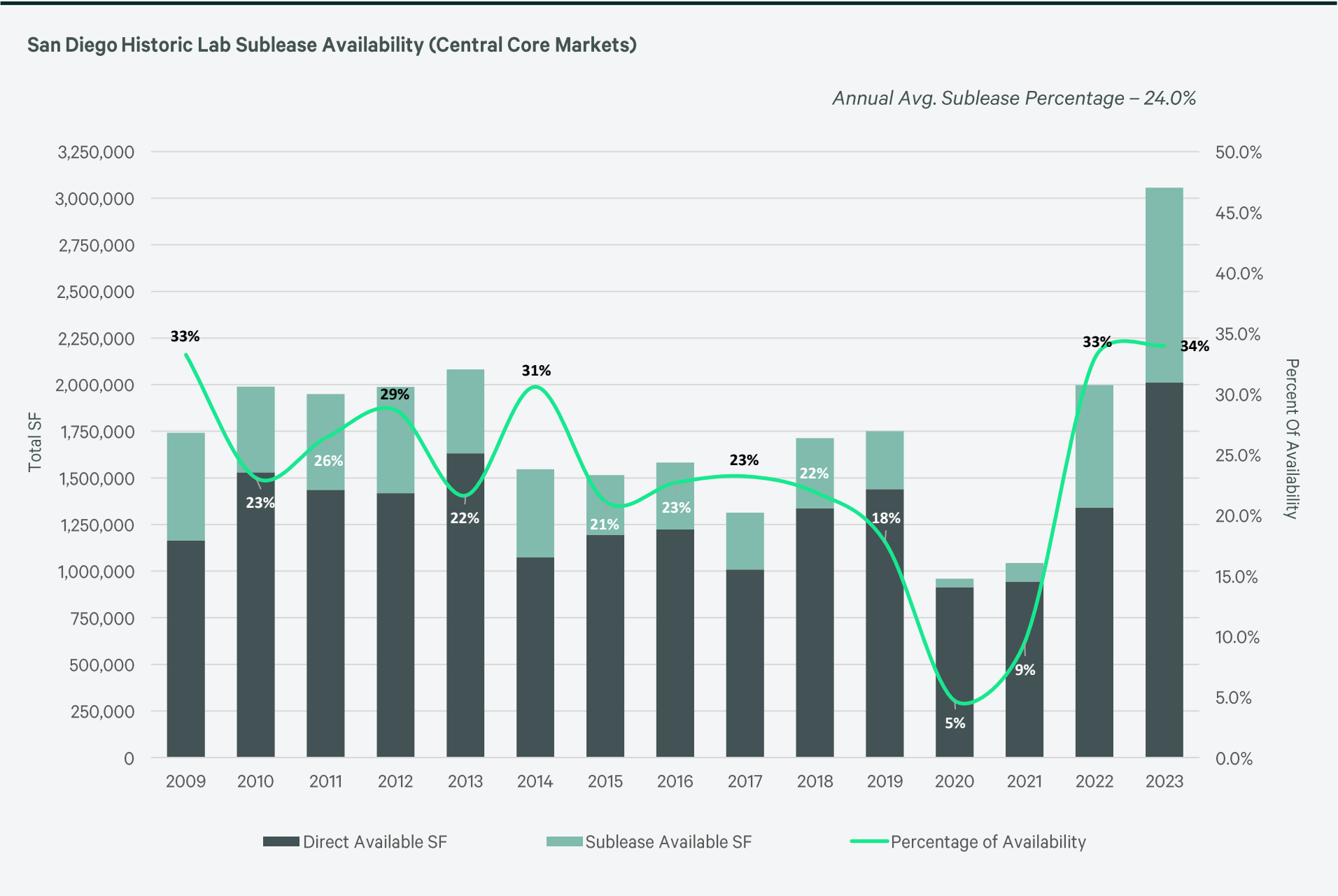


Source: CBRE

Sublease Inventory Growing

PERCENTAGE OF OVERALL AVAILABILITY

- Historically, we’ve seen sublease space account for over 30% of overall availability, during challenged markets of 2009 and 2014. That figure topped 40% during 2023. For reference, the recent 13-year annual average is 24.0%.



Source: CBRE

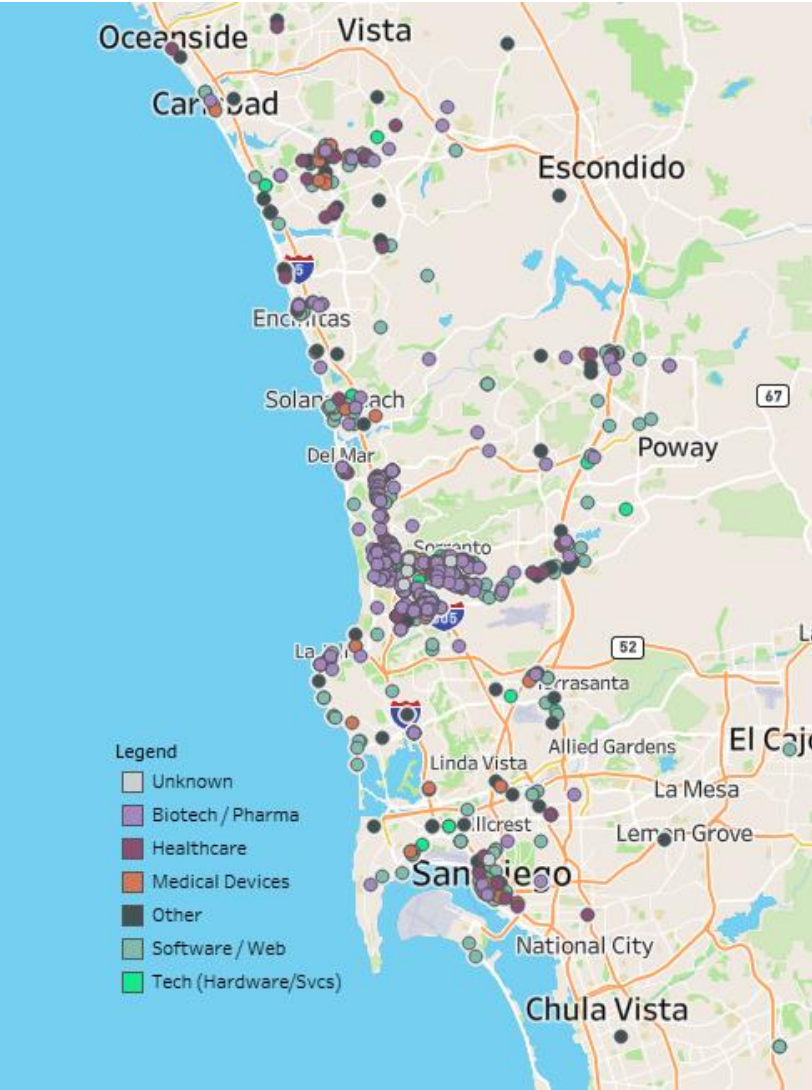
Venture Capital Funding

\$563M

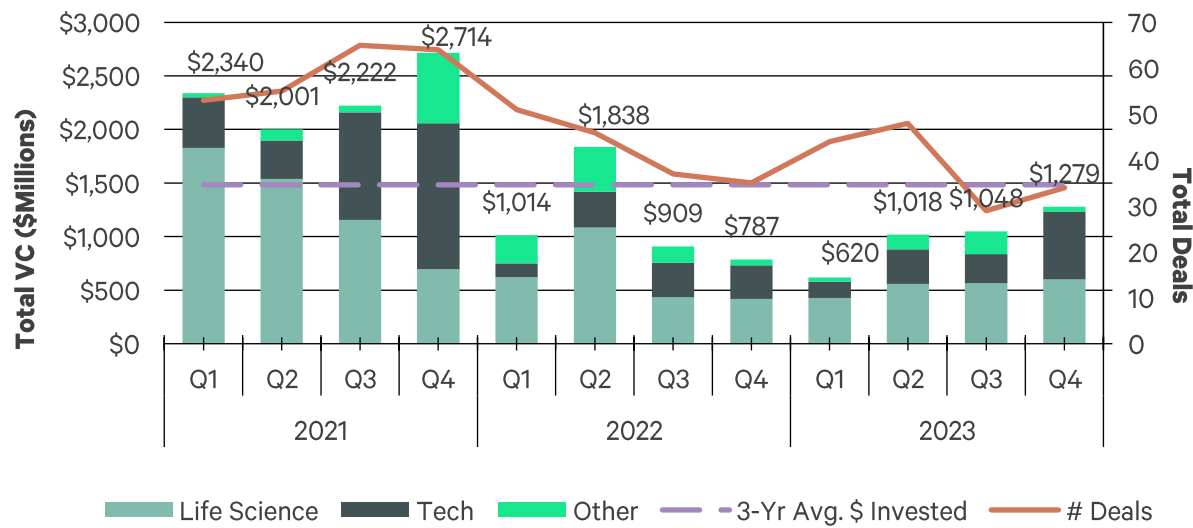
Q4 2023 Life Sciences VC Funding

- Economic headwinds appear to be slowing total venture capital funding, part of which has resulted in demand for lab space declining. Despite the drop in funding, we have seen a pickup in tenant activity for those requirements in the 5-15k sf range.
- Q4 Life Science funding rose to \$600.4 million, the highest quarterly figure of 2023 and the fourth consecutive period investment increased. Quarter-over-quarter, Life Science funding grew by 6.5% on the strength of 13 deals, up from 12 in Q3, and a handful of raises that topped \$50 million. Despite the year’s upward trajectory, annual Life Science funding decreased 15.9% Y-o-Y while falling for a second straight year.
- Life Science saw a number of sizable deals, with Rakuten Medical leading the way. The Sorrento Valley-based firm, raised \$182.1 million. Sorrento Mesa-located Iambic, maker of a therapeutic discovery quantum molecular simulation engine, brought in \$103.2 million in a Series B raise. MBrace Therapeutics, a developer of anti-tumor monoclonal human recombinant antibodies that operates out of UTC, did an \$85 million Series B round.

Location of VC funded Companies



San Diego Metro Total VC Funding



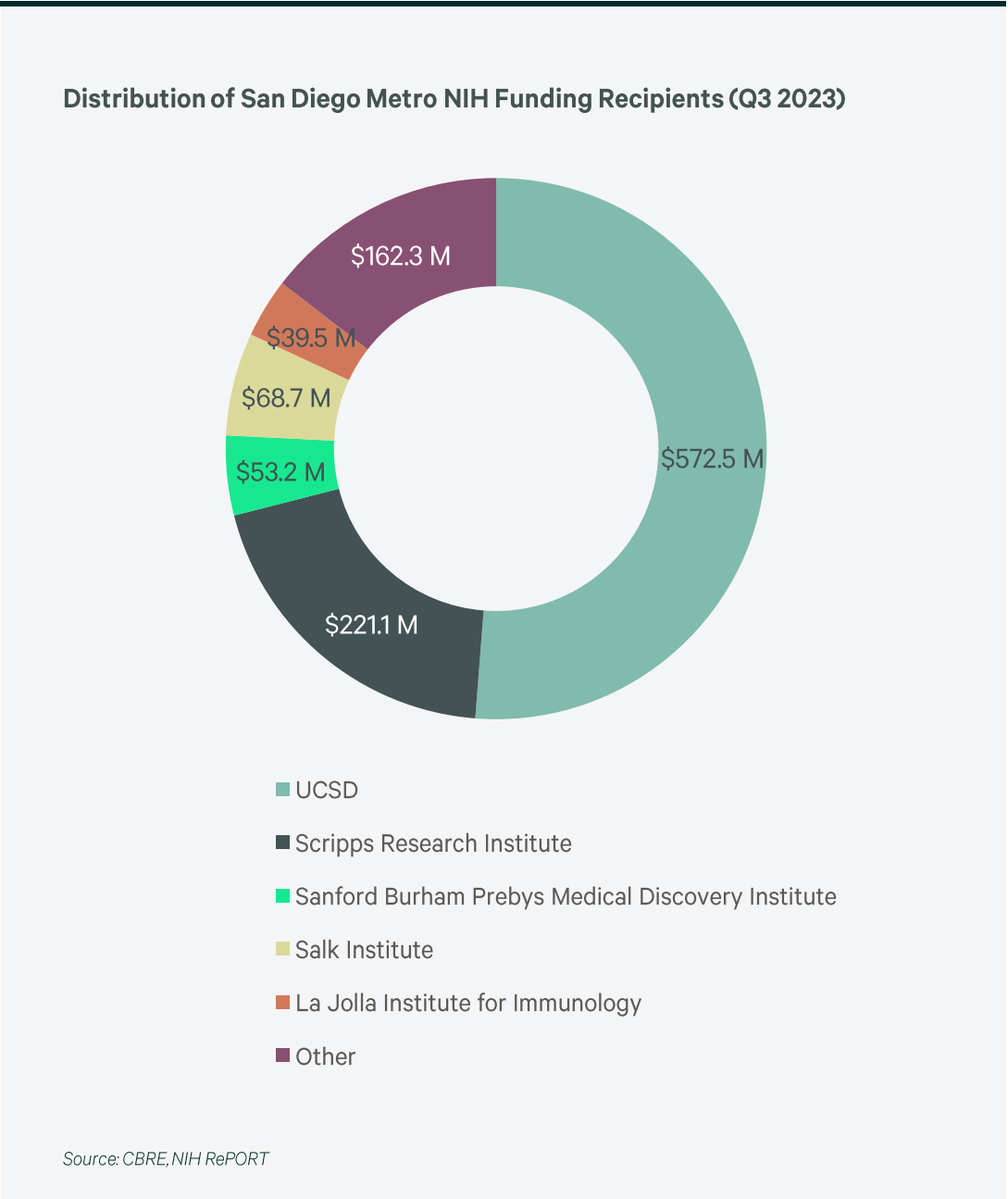
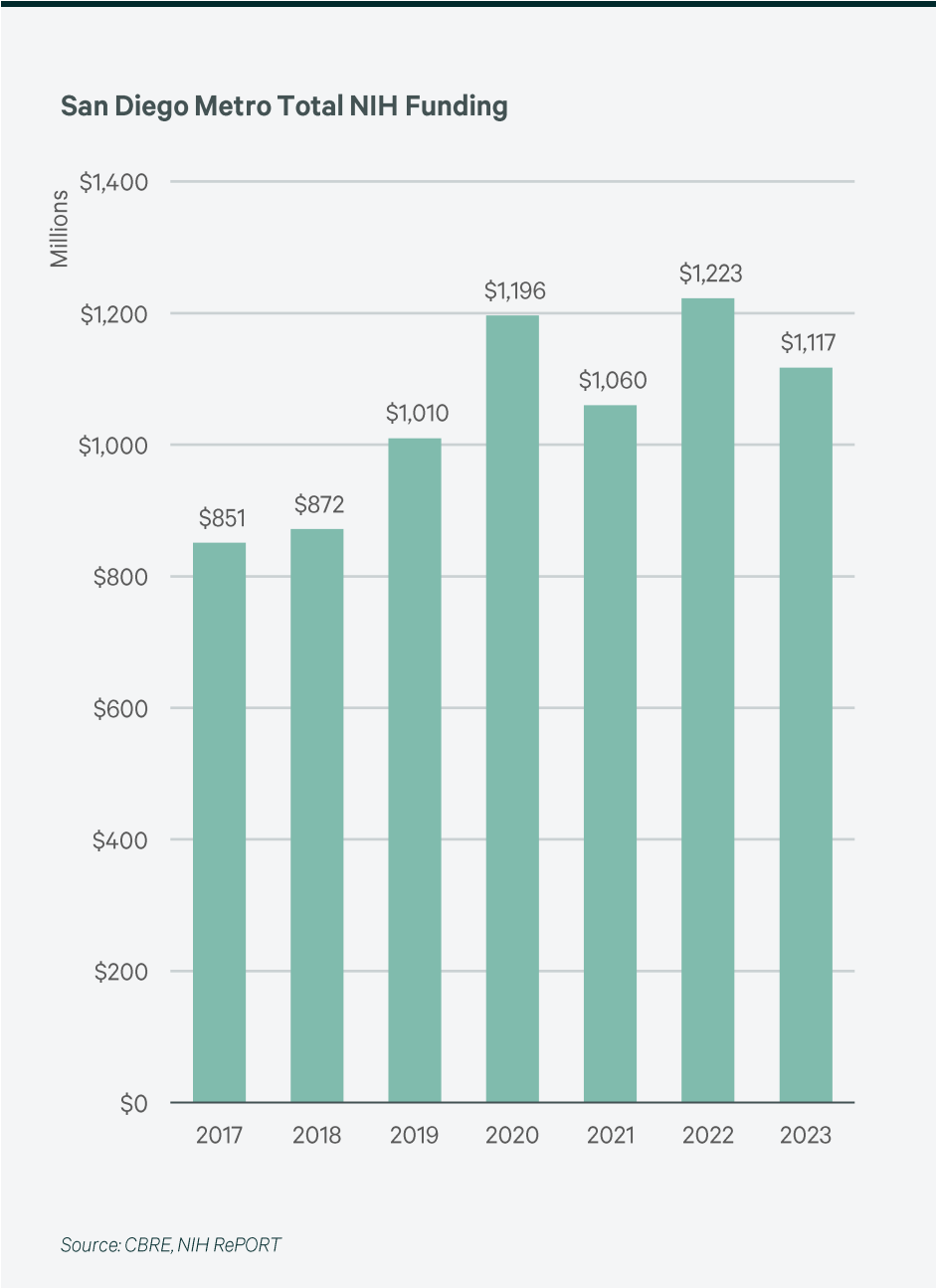
Q4 2023 Top Five VC Deals

Company	\$, Millions	Round	Industry
Rakuten Medical	182		Biotech / Pharma
Iambic	103	B	Biotech / Pharma
MBrace Therapeutics	85	B	Biotech / Pharma
Lassen Therapeutics	85	B	Biotech / Pharma
Adcentrx Therapeutics	51	A	Biotech / Pharma

Source: CBRE, Pitchbook

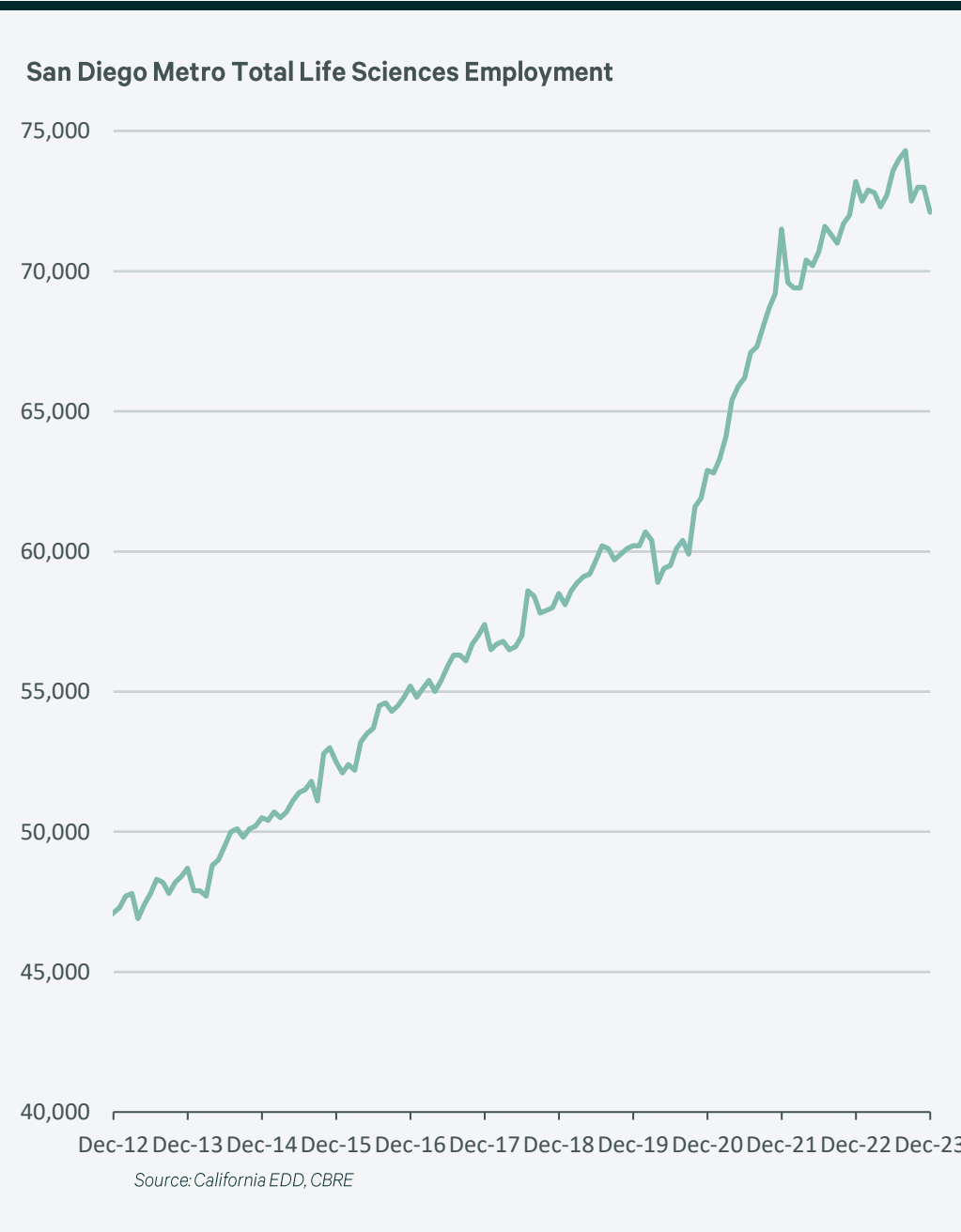
NIH Funding Impacts

- San Diego’s NIH funding reached over \$1.2B billion for 2022, the largest amount on record. San Diego has received at least \$1B in NIH funding since 2019, significantly up compared to historical norms, further proving to be a life sciences leader.
- UCSD, Scripps Research Institute, and Salk Institute continue to be the local leaders, accounting for \$862 million (77%) of total funding in 2023.



Life Sciences Talent

- Q4 saw a decrease in Life Sciences jobs with 72,100 posted in December, 2,200 less than the previous high of 74,300 in August of 2023.
- Life Sciences jobs were up 11,400 (+19.8%) since February 2020, reflective of the ongoing life sciences growth even during the pandemic.
- Total Life Sciences employment decreased by 1.5% (1,100 jobs) year-over-year in Q4 in San Diego.
- Annual life sciences job growth of 2.0% as of November was slightly more than the 1.8% total nonfarm payroll growth. Life sciences employment grew by just 0.1% between August and November, with October having the first net loss of life sciences jobs since April 2020 before rebounding in November.
- Biotech R&D job growth from January to November 2023 was just 0.1%.



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Definitions

Incubator Space – Lab space that caters to startups coming out of medical or academic research institutions.

Availability — Space that is being actively marketed and is available for tenant build-out within 12-24 months. Includes space available for sublease as well as space in buildings under construction.

Number of Buildings — The number of buildings in the current inventory where a portion of the building or the entire building includes lab exclusive or lab capable space.

NNN Average Asking Rent — Weighted average NNN asking rent. NNN asking rents are generally lower than full service gross rents since tenant assumes responsibility for proportional real estate tax, insurance, and maintenance expenses in addition to the base rent.

Inventory/Supply – A specific set of known laboratory buildings (includes lab space or sometimes lab capable space, and lab/bio manufacturing buildings occupied by tenants in the life science sector.

Demand – Tenants who are actively looking, or made it known that they'll be actively looking for space to lease, or purchase, for laboratory-related space.

Acquisition – Property acquired for life sciences utilization either as existing product, or immediate or future conversion potential.

Total Under Construction – Tracked similarly to office and industrial tracking, includes conversion and new construction (Build to Suit, Spec Development).

Delivery – that specific time in which lab conversion components are completed, including speculative builds, which may or may not effect when the entire building/project is added to LSc inventory.

Conversion – A building or project in which the intent to convert the existing condition/use into laboratory-related product has been communicated to the marketplace.

Planned Conversion – the time between acquisition and beginning of actual conversion demo/construction

Under Construction – actively converting the building/project from the present state to ab product.