Re:Align

Life Science CRE Market Update
+
Discussion About the Return to Work

Lab Space Development in San Diego

12 MILLION SQUARE FEET   2020

16 MILLION SQUARE FEET   2022

30 MILLION SQUARE FEET   2027 (PROJECTED)
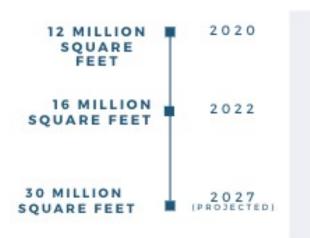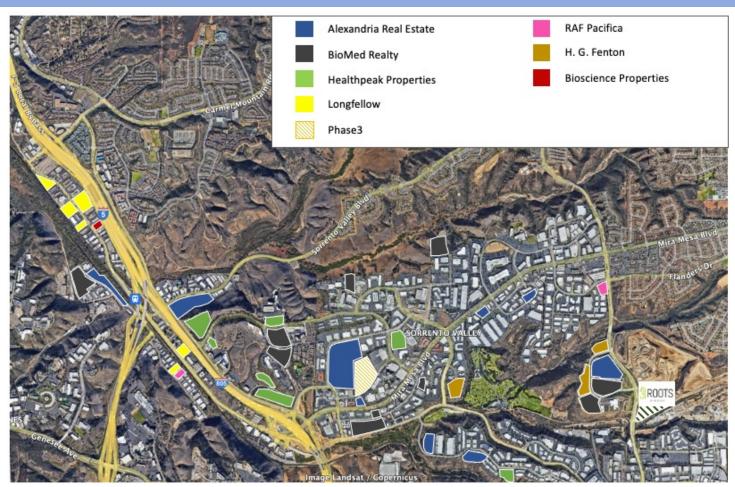
- San Diego is the third-largest biotech market in the US
- $2.5B in sales volume for life science properties in 2021 ($1B in 2020, +70% from 2019)
- ~4% CAP rates, ~$470 PSF
- Top buyers in past 3 years:
  - ARE = $1.1B
  - Harrison Street/Sterling Bay = $750M
  - Longfellow = $720M

Life Science Project Growth

2020 Sorrento Mesa Overview

Life Science Project Growth

2022 Sorrento Mesa Overview

Legend:
- Alexandria Real Estate
- BioMed Realty
- Healthpeak Properties
- Longfellow
- Sterling Bay/Harrison St
- Oxford Properties
- Breakthrough Properties
- H. G. Fenton
- Bioscience Properties
- Phase3
- RAF Pacifica

Market Data

San Diego Life Sciences Submarkets

	Sorrento Mesa	Sorrento Valley	Torrey Pines	UTC	Total/Average
Existing Inventory	6,756,665	1,522,789	5,754,066	4,022,468	18,055,988
Inventory Under Conversion	2,752,692	207,949	309,094	999,861	4,269,596
Direct Vacant Available[1]	2.4%	0.3%	1.4%	2.7%	2.0%
Sublease Vacant Available[1]	3.6%	2.1%	0.5%	2.6%	2.3%
Total Vacant Available[1]	6.0%	2.4%	1.9%	5.3%	4.3%
New Construction Deliveries	0	0	74,000	0	74,000
New Space Asking Rent (NNN)	$5.75–$6.95	$5.75–$6.75	$6.75–$7.15	$5.95–$6.95	$6.11–$7.00
4Q 2022 Net Absorption	(33,837)	59,485	57,627	(79,961)	3,314
2022 Year End Net Absorption	261,868	158,004	317,515	(72,132)	665,255

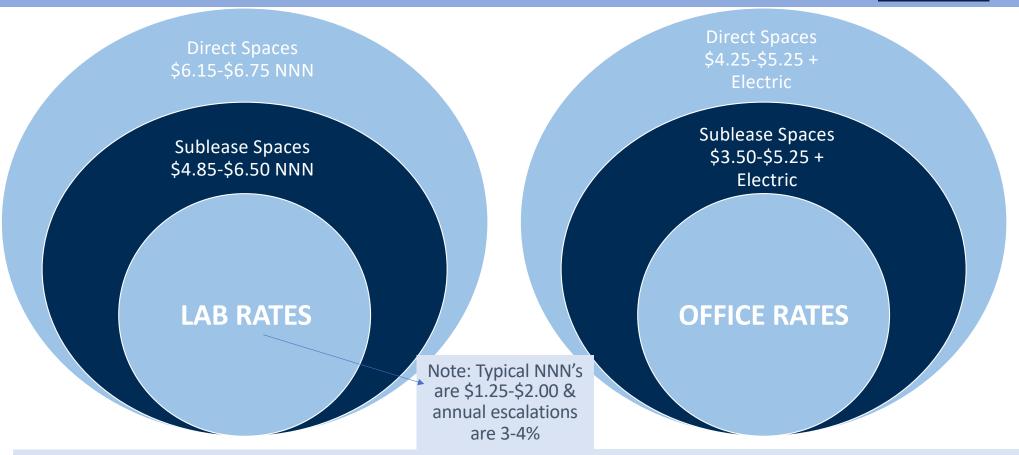[1] Vacant Available excludes space that is being converted or is not actively being marketed

Market Data – Life Science Availability

Life Science Availability Summary (Q4 2022)		
	Sorrento Mesa	**Sorrento Valley**
Total RBA	6,656,871	1,437,248
Direct Vacant (SQF)	349,232	12,681
Direct Vacant (%)	5.20%	0.90%
Sublease Vacant (SQF)	198,869	68,315
Total Vacant (SQF)	543,101	80,996
Overall Vacant (%)	8.20%	5.60%
Direct Available (SQF)	486,467	112,729
Sublease Available (SQF)	**245,424**	**86,447**
Total Available (SQF)	731,891	199,176
Total Available (%)	11.00%	13.90%
Average Asking Lease Rate (NNN)	**$6.54**	**$5.82**
Under Construction (SQF)	986,105	0
Percent Committed (LOI/Lease)	17%	N/A
Direct Leasing Activity Q4 2022	32,926	10,842
Net Absorption (Q4 2022)	-145,118	-32,864
Leasing Activity (YTD)	521,884	159,694
Net Absorption (YTD)	258,264	-17,463

Rates for Lab & Office

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Direct Spaces
$6.15-$6.75 NNN

Sublease Spaces
$4.85-$6.50 NNN

LAB RATES

Direct Spaces
$4.25-$5.25 +
Electric

Sublease Spaces
$3.50-$5.25 +
Electric

OFFICE RATES

Note: Typical NNN's
are $1.25-$2.00 &
annual escalations
are 3-4%

Estimated Lab TI from Shell Condition = $150-$225 per SF   Estimated Office TI from Shell Condition = $75-$95 per SF

Plan Accordingly

It used to take 8-10 weeks to get a new building permit for office/lab tenant improvements in San Diego.
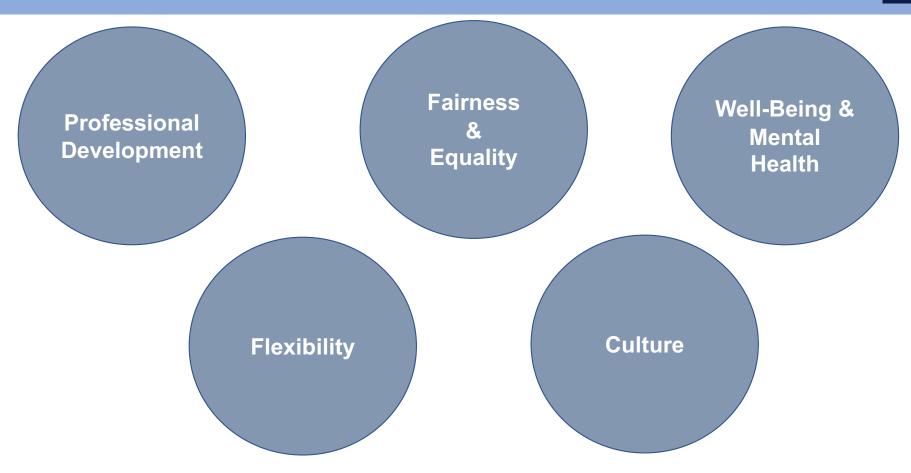**Now it takes 29-30 weeks.**

Sources:
Space Matters (Sandra Clark)
City of San Diego Development Services (https://www.sandiego.gov/development-services/permits/timeline)

What do Employees Care About?

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Professional Development

Fairness & Equality

Well-Being & Mental Health

Flexibility

Culture

94%

Percentage of Employees that would stay at a company that invests in their careers.

- **Training & Education**

- **Reevaluate the Metrics for Advancement**
  - Value output/task completion over presence
  - There is a bias with work assignments and promotions.

- **Take Steps to Ensure Access to Managers**
  - Remote "open door" policies
  - Create opportunities to interact (in-person days = collaborative)

- **Share the Information – Who is Doing What?**

What do Employees Care About? Fairness & Equality

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- **Do Not Give Managers Too Much Discretion**

- **Create a Policy-Based Approach for Consistency**
  - Example: 3 Days a Week
  - Extreme Example: No More, No Less

- **Make Decisions Based on Departments with Similar Functions**
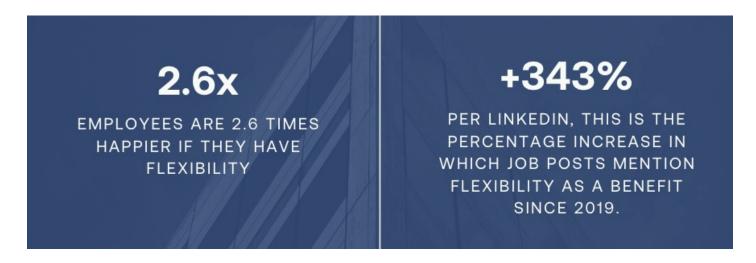
The conversation around fairness & equality is not centered around what you would likely expect (gender, race, etc.). Instead, it is about employees with similar job functions wanting to be treated the same.

658%

Percentage increase in CEOs talking about the issue in S&P 500 earnings calls since 2018.

What do Employees Care About? Flexibility

2.6x

EMPLOYEES ARE 2.6 TIMES HAPPIER IF THEY HAVE FLEXIBILITY

+343%

PER LINKEDIN, THIS IS THE PERCENTAGE INCREASE IN WHICH JOB POSTS MENTION FLEXIBILITY AS A BENEFIT SINCE 2019.

- **Goal: Flexibility within a Framework**

- **Goal: Readjust Productivity Metrics to Focus on Measuring Outcomes & Tasks Completed vs. hours of face time.**

What do Employees Care About? Well-Being & Mental Health

- **Benefits & Amenities**
- **Help Employees Set Boundaries – avoid blurring the line**
- **Use Technology to Block Time (remote "closed door" for focused work or for breaks)**

63%

Percentage of professionals that select work-life balance as a primary priority when picking a new job.

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- **Create Community – events, meetings, opportunities for creative collisions**

- **Ensure a Critical Mass**

- **Use Office Time for Collaboration (in-person meetings, whiteboarding, one-on-one's, etc.).**

60%

Percentage of employees working from home who say they feel less connected to their coworkers.

What Do I Do With That Information? Ask Questions.

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Where Does Your Team Live?

What is the Average Tenure & Level of Each Employee?

Can the Job be Performed Well at Home?

What is the Average Age of Your Team?

OFFICE WORKERS PREFER A HYBRID MODEL

28%

56%

16%

FULL TIME IN OFFICE

HYBRID WORK MODEL

FULL TIME AT HOME

Preferred Number of Days:
2-3 (Employees)
3-4 (Employers)

Preferred Day:
Tuesday

Main Take Aways

In-Person Days	Remote Days (Full-Time or via Hybrid Schedule)
People need to feel like it is worth their time to come into the office. Companies need to make it collaborative, interactive and provide opportunities to socialize, network and conduct in-person meetings that would otherwise be held on Zoom/Teams/etc.	Companies need to work with employees to set boundaries so that they have a separation between home/work life. Managers need to block out time (a virtual "open door" policy) for people to ask questions or connect. In order to encourage retention, promote professional development & preserve company culture, companies need to create virtual and in-person opportunities for learning and to connect.

How Do We Make This Work?

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In-Office Days	Remote Days (Hybrid or Full-Time)
Require people come in on consistent days to achieve a critical mass of people	Managers should block specific windows of time on their calendars for a remote work "open door" policy so people can reach out with questions or to connect
Consider which departments collaborate and require that those departments are in-person on at least one day together.	Encourage employees to block their own schedules for breaks and also private, uninterrupted work. This replaces visual cues of doors being open/shut.
Ensure managers are onsite when their team members are to provide training, mentoring & networking opportunities.	Work with managers to evaluate employees based on task completion vs. hours of face time.
Ask employees about what could be replicated in the office to ensure the same efficiencies when employees are working onsite (ex: dual screens).	Encourage employees to have hard stops at the end of the day to avoid employee burnout.
Use the time in the office to collaborate – work that is independent and needs to be uninterrupted should be done at home.	Host virtual events and training or schedule in-person meetups like team lunches or happy hours to foster a sense of belonging and culture.

Space Plays a Role in Achieving the Company's Goals

"We believe our in-person office space is vital to conducting a successful business/operation"

	Applies To Us Today	Could Apply to Us in Future	Doesn't / Won't Apply	Unsure
Fall 2020	46%	28%	18%	8%
Spring 2021	56%	22%	12%	10%
Summer 2022	55%	31%	11%	3%
Summer 2022 / C-Suite-Owners Only	56%	29%	11%	3%

86%

Office Tenants Nationwide Believe Office Space is or Will Be <u>Vital to Conducting a Successful Business</u>

Chart courtesy of BOMA International

Companies continue to believe a physical presence is important.
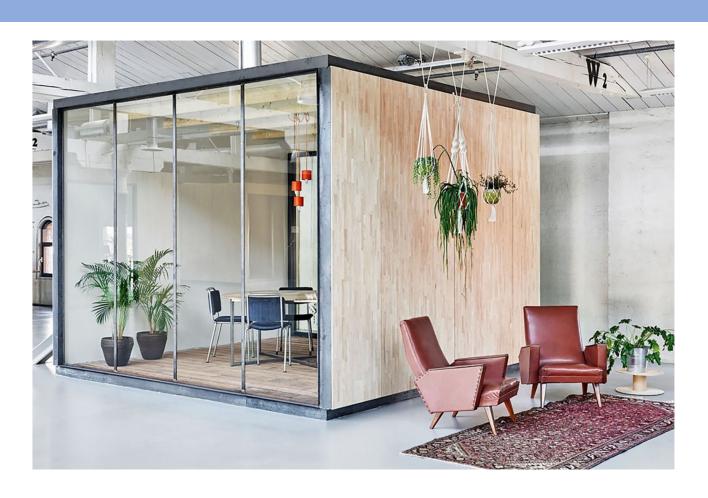Many companies are redefining their space to adjust to the post-pandemic world.

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Create Space for Group Work & Meetings

1:1

The ratio of conference seats to individual desk seats. Pre-Pandemic it was 0.27:1.

Create More Collaborative & Break Out Spaces

"[T]he typical office layout has undergone a complete turnaround from prioritizing desk allocation to focusing on spaces that enable collaboration and high-quality experiences."
Fortune Magazine

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Create Amenity-Rich Spaces for Creative Collisions & Socialization

83%

Percentage of employees willing to return to the office if their ideal experiences were met (*i.e.*, hospitality focused experiences)

Location Matters.

Proximity to Retail
(Make the Commute
Productive)

Critical Mass of People

Amenity-Rich Campus

Image Source: Kilroy

VS.

Our Process

Situation
Analysis

Develop
Strategic Plan

Model & Test
Alternatives

Engage the
Market

Think Inside the Box!

Modeling & Testing Alternatives in Advance Saves Time, Money and Maximizes Negotiating Leverage

Negotiating Leverage Declines Once You Engage the Market

RE:Align and/or Strategic Partners Provide Best in Class Project/Construction Management and Other Services

Space Demand Forecast

April 2022 Space "Balance Sheet" & Forecasted Space Needs by Functions

FORECASTED REQUIREMENTS

	Current 2022			YE 2023					YE 2024					YE 2025				YE 2026				YE 2027		
	Seats	Staff	Sq. Ft.	Seats	Plan	Sq. Ft.	High	Sq. Ft.	Seats	Plan	Sq. Ft.	High	Sq. Ft.	Plan	Sq. Ft.	High	Sq. Ft.	Plan	Sq. Ft.	High	Sq. Ft.	Plan	Sq. Ft.	High	Sq. Ft.
Building 1																									
Marketing	27	9	1,680	27	13	1,680	15	944	27	16	992	17	1,040	18	1,104	19	1,152	21	1,248	23	1,360	24	1,408	26	1,592
Sales & Sales Support	43	37	1,812	43	49	1,812	56	2,256	43	65	2,620	73	2,908	74	2,944	74	2,944	76	3,056	76	3,056	76	3,056	76	3,056
Technical Support	24	20	912	24	27	912	30	1,116	24	36	1,332	39	1,452	39	1,452	39	1,452	39	1,452	39	1,452	39	1,452	39	1,452
Regulatory Affairs	6	1	424	6	11	424	11	628	6	13	724	13	724	14	772	14	772	15	836	15	836	15	836	15	836
Strategy & Market Research	4	2	376	4	3	376	3	212	4	3	212	4	260	5	324	6	424	6	424	6	424	6	424	6	424
Vacancy					5	330	6	368		7	426	7	467	8	480	8	480	8	480	8	480	8	480	8	480
Common Areas/Support Areas		1	13,270			13,469		14,242			15,207		15,542		16,164		16,255		16,907		16,975		17,005		17,118
Building Subtotal	104	70	18,474	104	108	19,003	121	19,766	104	140	21,512	153	22,393	158	23,240	160	23,479	165	24,403	167	24,583	168	24,661	170	24,958
Building 2																									
Research & Development	44	7	864	44	7	1,024	7	1,024	-	-	1,024	-	1,024	-	1,024	-	1,024	-	1,024	-	1,024	-	1,024	-	1,024
R&D Translational Clinical Development	27	22	1,498	27	23	1,498	25	1,498	22	-	1,498	-	1,498	-	1,498	-	1,498	-	1,498	-	1,498	-	1,498	-	1,498
R&D Quality	33	33	1,874	33	33	1,874	35	1,874	26	-	1,874	-	1,874	-	1,874	-	1,874	-	1,874	-	1,874	-	1,874	-	1,874
Vacancy																									
Common/Specialty Areas			7,860			7,860		7,860			7,860		7,860		7,860		7,860		7,860		7,860		7,860		7,860
Building Subtotal	104	62	17,590	104	63	17,590	67	17,590	48	-	17,590	-	17,590	-	17,590	-	17,590	-	17,590	-	17,590	-	17,590	-	17,590
Building 3																									
Vacant Areas (Formerly Facility/Operations/IT)	27	-	1,604	11	-	652	-	652	11	-	652	-	652	-	652	-	652	-	652	-	652	-	652	-	652
Supply Chain	14	7	688	14	9	688	10	688	14	12	688	13	688	13	688	14	688	14	688	14	688	14	688	14	688
Manufacturing & Support	24	15	1,236	24	19	1,236	21	1,236	24	23	1,236	24	1,236	24	1,236	24	1,236	24	1,236	24	1,236	24	1,236	24	1,236
Quality	13	9	692	13	11	692	11	692	13	12	692	12	692	13	692	13	692	13	692	13	692	13	692	13	692
Vacancy																									
Common/Specialty Areas		22	25,927			18,823		18,823			18,823		18,823		18,823		18,823		18,823		18,823		18,823		18,823
Building Subtotal	78	31	30,147	62	39	30,147	42	30,147	62	47	30,147	49	30,147	50	30,147	51	30,147	51	30,147	51	30,147	51	30,147	51	30,147
Building 4																									
Finance & Admin (HR)	35	28	2,176	35	38	2,416	45	2,704	35	65	4,176	71	4,528	83	5,312	92	5,904	96	6,144	100	6,400	102	6,512	105	6,736
Facilities	9	3	512	9	7	384	7	384	9	8	432	9	496	9	496	9	496	9	496	9	496	9	496	9	496
IT	22	16	1,296	22	21	1,104	24	1,152	22	27	1,424	30	1,584	33	1,744	34	1,792	36	1,904	37	1,952	38	2,000	38	2,000
Quality	29	10	1,504	29	11	656	14	656	29	17	912	19	1,008	19	1,008	19	1,008	21	1,120	21	1,120	21	1,120	21	1,120
Vacancy										6	374	6	413	7	461	8	461	8	461	8	461	9	544	9	544
Common/Specialty/Warehouse Areas			18,448			18,115		18,236			19,551		19,806		20,609		20,838		21,452		21,561		22,096		22,177
Building Subtotal	95	57	23,936	95	77	23,936	90	23,936	95	117	26,870	129	27,834	144	29,630	154	30,499	162	31,577	167	31,990	170	32,768	173	33,073
Total Staff/Seats	381	220		365	282		314		309	291		318		337		349		362		369		373		377	
Vacancy 5%					5		6			13		14		15		15		16		16		17		17	
Total Seats w/ Vacancy					287		320			304		331		352		365		378		385		389		394	
Total Usable Square Feet			90,147			90,675		91,438			96,118		97,964		100,607		101,715		103,716		104,310		105,166		105,767
Current Total Rentable Square Feet			90,147																						
Current Rentable Load Factor			100.0%																						

Re: Tenant
Align Strategies

Creativity. Passion. Experience.
moving companies forward