

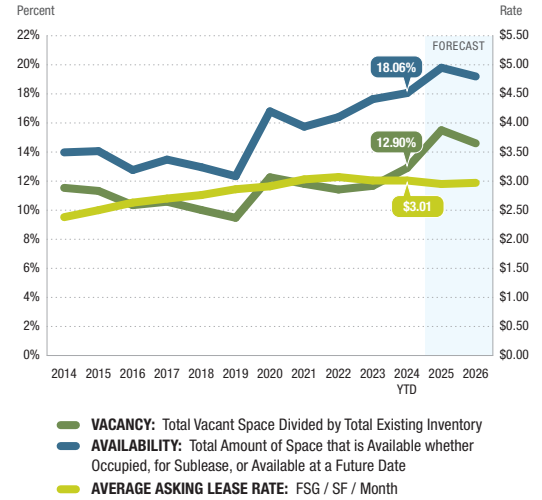
OVERVIEW. Leasing and sales volumes remained at low levels compared with historical norms in Q3. The market saw a modest amount of positive absorption in Q3, but the 2024 total remained in the negative. Sublease availability in the market stubbornly held its inflated position. The average asking rental rate for the county was flat in Q3, and office construction is historically elevated. Fundamentals in the county's largest office submarket, Downtown, remain in the doldrums.

VACANCY & AVAILABILITY. Direct/sublease space (unoccupied) finished Q3 at 12.90%, a 105-basis point increase from the level of a year ago. Available office space being marketed (regardless of occupancy status) was 18.06% of the county's inventory at the end of Q3, an increase of 0.55 percentage points over the prior year. Among the county's major submarkets (minimum of 5 MSF of inventory), Sorrento Mesa had the lowest availability, at 12.1%. Meanwhile, the availability rate in Downtown is at 37.6% and the vacancy rate there is greater than 30%. The relatively large amount of new office space that will be completed over the next couple of years will continue to move the vacancy rate higher. Sublease availability has increased by 1.45 MSF since Q3 2021, effectively doubling over that span. There were 2.84 MSF of available sublease space at the end of Q3.

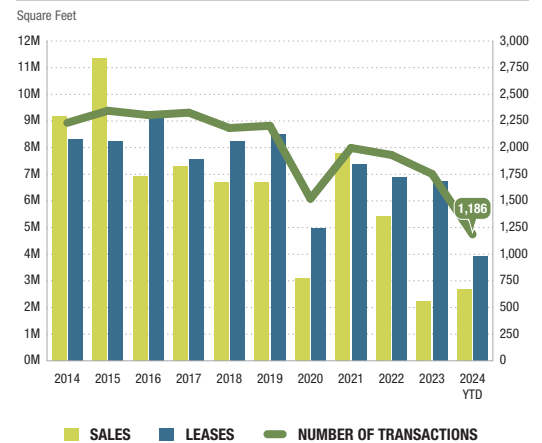
LEASE RATES. The average asking full-service-gross (FSG) lease rate per square foot per month in San Diego County was \$3.01 at the end of Q3, a one-cent increase from the prior quarter's rate. The average asking rate for San Diego office is still down from the peak of \$3.07 reached at the end of 2022. This decrease in asking rental rates is an indicator of some weakness in the office market, especially in light of the substantial construction pipeline currently underway. Typically, a large amount of new office space coming to the market pushes the average rental rate higher. The average asking rental rate is finally seeing the effects of decreased leasing activity, increased availability, and competition from sublease office space. Average asking lease rates have now been hovering around the current level for over a year, as landlords with less-desirable office buildings, or in lower-demand submarkets, are realizing they need to be more aggressive in the way they position their vacancies. But the balance of leverage varies across the county.

TRANSACTION ACTIVITY. Through the first three quarters of 2024, there have been 3.9 MSF of leases recorded. This puts the market on a pace for 5.2 MSF of leasing activity for 2024, while each of the prior three calendar years recorded more than 6.7 MSF of leasing activity. The number of office leases recorded in Q3 was 339. This was below the quarterly average of 447 transactions recorded between 2021 and 2023. Office sales volume remained constrained in the first three quarters of 2024, with less than \$500 million in sales occurring. This puts the market on pace for less than \$640 million for the full year, and prior to 2023, the last time less than \$1 billion in office sold in a calendar year was in 2010. The largest transaction of the quarter was The Irvine Company's disposition of Symphony Towers office in Downtown. The 546,092 SF

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

	Change Over Last Quarter	Q3 2024	Q2 2024	Q3 2023	% Change Over Last Year
Vacancy Rate	▲ UP	12.90%	12.62%	11.85%	8.86%
Availability Rate	▲ UP	18.06%	17.81%	17.51%	3.13%
Average Asking Lease Rate	▲ UP	\$3.01	\$3.00	\$3.01	0.00%
Sale & Lease Transactions	▲ UP	2,438,899	2,064,183	1,823,393	33.76%
Gross Absorption	▼ DOWN	1,452,359	1,728,238	1,667,186	(12.89%)
Net Absorption	▲ POSITIVE	61,086	157,409	(11,989)	N/A

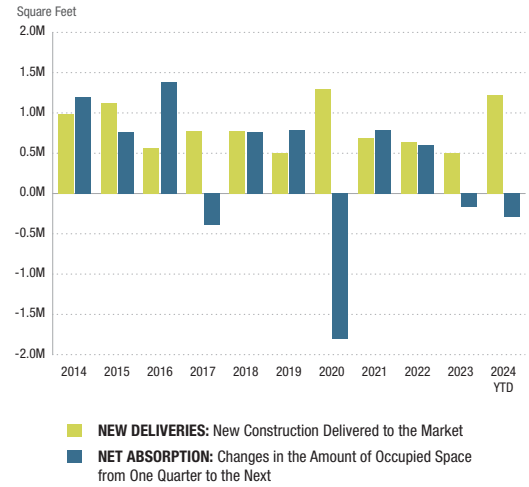
office sold at a paltry \$84 per square foot, which is many times lower than replacement cost, and nearly a 70% discount versus the \$134 million the building was acquired for in 2003.

ABSORPTION. There were 61,086 SF of positive net absorption in Q3, which is on the heels of 157,409 SF of positive net absorption in Q2. Despite this welcome respite, the market remains firmly in the red with a net total of negative 290,711 SF for the first three quarters of 2024. The Del Mar Heights / Carmel Valley submarket registered the greatest amount of positive net absorption, with over 400,000 SF of office tenant footprint expansion in the first nine months of 2024. Much of the growth in that submarket has come in offices completed in 2024.

CONSTRUCTION. Through the first three quarters of 2024, there have been 1.2 MSF of new office deliveries, exceeding the annual totals of each of the previous three years. The 520,000 SF Torrey View development in Carmel Valley is the largest office development to come to fruition thus far in 2024. The three-building project owned by Breakthrough Properties commenced construction in 2021, and came to completion in 2024, fully occupied. Pfizer and BD each leased over 200,000 SF in the project. As for offices under construction at the midpoint of 2024, IQHQ and Stockbridge are each still searching for an anchor tenant for their office developments under construction in Downtown San Diego. Construction projects that recently completed, or are nearing completion, were begun during a period of rapid growth in the technology and life sciences sectors. Those sectors have pulled back, along with their demand for office space, leaving owners of new office buildings jockeying to capture a piece of a smaller pie. Among the projects under construction, there is one new headquarters building coming out of the ground. Scripps Healthcare is under way on a five-story office building in the heart of UTC.

EMPLOYMENT. The unemployment rate in San Diego County was 5.0% in August 2024, up from a revised 4.9% in July 2024, and above the year-ago estimate of 4.4%. This compares with an unadjusted unemployment rate of 5.9% for California and 4.4% for the nation during the same period. Over the 12-month period between August 2023 and August 2024, San Diego County employment increased by 10,800 jobs, an increase of 0.7%. With the normal delay in reporting from the California EDD, employment figures from September were unavailable at the time of publishing this report. For the nation as a whole, 254,000 jobs were added in September, the highest monthly payroll increase in six months.

NEW DELIVERIES & NET ABSORPTION



Forecast

The current surge in office construction will push the vacancy rate up, and that will have the most direct impact on the market for larger tenants. For the county as a whole, we project increased vacancy in the coming quarters. Office loan distress is mounting, and this will place downward pressure on office sale pricing.

Significant Transactions

Sales

Property Address	Submarket	Class	Square Feet	Sale Price	Buyer	Seller
750 B St.	Downtown	A	546,092	\$45,686,000	Formosa, Ltd.	The Irvine Company
7676 Hazard Center Dr.	Mission Valley	A	270,000	\$40,250,000	BH Properties, LLC	Principal Real Estate Investors
12707 & 12777 High Bluff Dr.	Del Mar Heights	B	124,506	\$35,000,000	KR Junction, LLC	EQ Office
404 Euclid Ave.	Southeast San Diego	B	73,000	\$21,000,000	San Ysidro Health Turner Impact Capital, LP	Jacobs Center for Neighborhood Innovation
5080 & 5090 Shoreham Pl.	Governor Park	B	51,831	\$11,000,000	CAST Capital Partners	MIG Real Estate, LLC

Leases

* Voit Real Estate Services Deal

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
7470 Mission Valley Rd.	Mission Valley	C	67,346	Jul-2024	General Dynamics	H.G. Fenton
550 W. C St.	Downtown	A	43,460	Jul-2024	City of San Diego	APFC
5770 Fleet St.	Carlsbad	B	36,650	Jul-2024	Undisclosed	Regent Properties
12790 El Camino Real	Del Mar Heights	A	35,482	Jul-2024	FICO	(Sublease)
8939 Villa La Jolla Dr.	UTC	C	21,854	Aug-2024	Proprioceptive Solutions	Protea*

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate Q3 2024	Square Feet Available	Availability Rate Q3 2024	Average Asking Lease Rate	Net Absorption Q3 2024	Net Absorption 2024	Gross Absorption Q3 2024	Gross Absorption 2024
Downtown													
Downtown	128	14,672,700	2,011,501	550,000	4,669,342	31.82%	6,273,961	37.60%	\$2.61	18,947	(218,692)	246,321	509,718
Downtown Total	128	14,672,700	2,011,501	550,000	4,669,342	31.82%	6,273,961	37.60%	\$2.61	18,947	(218,692)	246,321	509,718
Central													
City Heights / University	32	1,251,082	0	0	64,454	5.15%	73,338	5.86%	\$2.50	(17,066)	(17,178)	11,659	21,060
Coronado	4	84,540	0	0	0	0.00%	0	0.00%	-	0	0	0	0
Kearny Mesa	240	11,409,910	0	354,087	1,049,838	9.20%	1,596,494	13.99%	\$2.98	(150,976)	(168,548)	105,015	325,066
Mission Gorge	19	586,866	0	0	6,968	1.19%	6,968	1.19%	\$1.77	(1,943)	(4,666)	825	4,895
Mission Valley	129	7,445,204	0	1,130,925	1,281,443	17.21%	1,438,531	19.32%	\$2.96	41,708	51,353	146,637	531,197
Old Town / Point Loma	75	2,306,052	0	230,000	209,481	9.08%	248,776	10.79%	\$2.73	1,535	(6,755)	27,729	84,229
Park East	16	238,344	0	0	0	0.00%	3,000	1.26%	\$1.98	0	985	0	8,098
Rose Canyon / Morena	50	1,188,527	0	0	72,677	6.11%	89,073	7.49%	\$2.31	(365)	(31,734)	15,064	53,653
Uptown / Hillcrest	78	2,179,768	0	0	124,296	5.70%	171,099	7.85%	\$2.61	7,926	20,939	17,047	68,391
Central Total	643	26,690,293	0	1,715,012	2,809,157	10.53%	3,627,279	13.59%	\$2.90	(119,181)	(155,604)	323,976	1,096,589
I-15 Corridor													
Escondido	73	1,743,122	0	36,614	220,907	12.67%	407,727	23.39%	\$2.33	8,180	(9,215)	29,523	97,512
Poway	30	1,207,411	0	0	66,197	5.48%	69,945	5.79%	\$1.84	33,122	33,455	33,824	54,279
Rancho Bernardo	101	6,466,816	0	165,747	597,542	9.24%	949,976	14.69%	\$3.17	55,395	100,090	130,845	285,598
Scripps Ranch	49	2,744,134	0	356,000	461,659	16.82%	411,921	15.01%	\$3.00	3,626	(34,006)	18,851	32,241
I-15 Corridor Total	253	12,161,483	0	558,361	1,346,305	11.07%	1,839,569	15.13%	\$2.94	100,323	90,324	213,043	469,630
North County Coastal													
Carlsbad	165	7,068,238	0	50,000	1,080,850	15.29%	1,752,393	24.79%	\$2.64	(55,175)	(209,834)	140,435	267,925
Del Mar Heights / Carmel Valley	85	6,240,387	442,534	1,635,627	724,195	11.60%	1,159,739	17.35%	\$4.68	99,070	429,580	114,843	826,364
North Beach Cities	112	2,757,474	0	25,456	281,002	10.19%	344,609	12.50%	\$4.35	(9,669)	(52,662)	32,531	106,904
North County Total	362	16,066,099	442,534	1,711,083	2,086,047	12.98%	3,256,741	19.73%	\$3.33	34,226	167,084	287,809	1,201,193
North City													
Governor Park	19	768,582	0	0	57,294	7.45%	87,259	11.35%	\$3.01	23,010	20,765	39,356	66,330
La Jolla	45	1,362,600	0	0	194,553	14.28%	292,431	21.46%	\$3.65	4,972	4,109	32,309	80,467
Miramar	33	1,508,065	0	0	78,599	5.21%	626,738	41.56%	\$2.30	8,226	(4,180)	34,684	82,020
Sorrento Mesa	104	8,507,622	0	1,232,000	593,932	6.98%	1,029,727	12.10%	\$2.98	21,767	(66,857)	43,360	130,339
Sorrento Valley	21	611,165	0	0	145,242	23.76%	90,138	14.75%	\$2.52	(4,751)	(41,896)	4,238	4,238
Torrey Pines	40	3,020,942	0	309,094	44,941	1.49%	62,391	2.07%	-	(2,190)	(7,870)	850	12,337
UTC	90	9,172,869	558,183	400,000	962,725	10.50%	1,812,359	18.62%	\$3.91	(36,978)	(47,622)	112,507	424,049
North City Total	352	24,951,845	558,183	1,941,094	2,077,286	8.33%	4,001,043	15.68%	\$3.51	14,056	(143,551)	267,304	799,780
Southern & Eastern Areas													
Chula Vista	93	2,986,268	228,000	1,925,884	137,080	4.59%	159,947	4.98%	\$2.54	(3,714)	(16,933)	23,857	93,768
National City	16	583,906	0	0	12,932	2.21%	58,519	10.02%	\$2.49	0	(5,777)	0	4,884
South San Diego	14	350,710	0	0	50,864	14.50%	49,536	14.12%	\$2.82	4,355	5,338	7,700	13,841
Southeast San Diego	13	481,600	0	0	2,235	0.46%	2,235	0.46%	\$1.76	0	18,226	0	18,226
East County	153	3,837,985	0	50,000	158,378	4.13%	230,413	6.00%	\$2.53	4,306	(31,498)	45,618	113,488
Southern & Eastern Areas Total	289	8,240,469	228,000	1,975,884	361,489	4.39%	500,650	5.91%	\$2.52	4,947	(30,644)	77,175	244,207
Highway 78 Corridor													
Oceanside	62	1,495,487	0	218,235	142,014	9.50%	167,300	11.19%	\$2.45	13,026	9,762	17,064	63,649
San Marcos	38	1,482,054	0	1,488,287	63,955	4.32%	88,532	5.97%	\$2.41	3,043	2,976	10,726	30,614
Vista	51	1,255,156	0	0	251,644	20.05%	156,045	12.43%	\$2.35	(8,301)	(12,366)	8,941	34,795
Highway 78 Corridor Total	151	4,232,697	0	1,706,522	457,613	10.81%	411,877	9.73%	\$2.39	7,768	372	36,731	129,058
Class A	315	43,071,609	3,240,218	7,657,663	7,042,550	16.35%	11,284,875	24.37%	\$3.33	223,889	267,184	723,651	2,253,477
Class B	1,242	50,019,243	0	2,500,293	5,767,542	11.53%	7,502,533	15.00%	\$2.83	(108,685)	(417,429)	590,425	1,772,481
Class C	621	13,924,734	0	0	997,147	7.16%	1,123,712	8.07%	\$2.28	(54,118)	(140,466)	138,283	424,217
San Diego County Total	2,178	107,015,586	3,240,218	10,157,956	13,807,239	12.90%	19,911,120	18.06%	\$3.01	61,086	(290,711)	1,452,359	4,450,175

This survey consists of buildings greater than 10,000 square feet. Lease rates are on a full-service gross basis.



San Diego Faring Better Than Nation

by **Connor Wieck**

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Since 2020, major office markets across the U.S. have faced significant occupancy declines, but San Diego has not experienced the same level of disruption. At its core, San Diego is a market with a diversified employment base, which helps insulate it from dramatic shifts in tenant occupancy. That said, the past four years have shown landlords that tenants are seeking to create value in their occupancy by finding well-located, efficient properties that are amenity-rich while also factoring in their rent expense line item.

Current trends in the marketplace favor tenants. With roughly a 5% increase in vacancy since 2020, tenants looking to right-size their occupancy, relocate within particular submarkets, or renew their existing leases benefit from a competitive marketplace. Rent abatement packages and customized tenant improvements remain the primary drivers in tenant decision-making, alongside base-rent concessions. We continue to see promotional rates and speculative buildouts in office spaces, as landlords aim to make a strong first impression on tenants touring multiple properties.

The cost of construction is another vital factor influencing the office market landscape. Construction costs have surged in recent years, driven by supply chain disruptions, increased material prices, and labor shortages. These rising costs have made it more challenging for landlords to develop new properties or renovate existing ones, potentially limiting the supply of office spaces. As a result, landlords are focusing on maximizing the value of their current portfolios by enhancing existing properties rather than undertaking new developments.

For landlords, news headlines, such as the recent mandate from Amazon for employees to return to the office five days a week, help set the tone for office expectations on a macro level. Landlords must make every effort to circumvent stagnant rent growth while positioning their properties to stand out from the competition. One constant remains: tenants are looking for a workplace environment that offers comfort and a positive day-to-day experience for their employees. Employers need to focus on finding office spaces that foster camaraderie among their workforce and provide clear reasons for employees to come to the office.

Many pre-pandemic leases are still active. With increasing sublet availability and new supply entering the market from major projects like Horton Plaza and the RaDD district, San Diego landlords are doing their best to counter trends that suppress rent growth. Looking forward, we expect the office sector to continue finding its footing. Election uncertainty, macroeconomic policies, and trends in unemployment all create uncertainty in the marketplace. However, San Diego appears to be faring better than most of the core U.S. markets in navigating the downturn in the market, providing hope for local office ownership moving forward.

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This survey consists of properties representing both single tenant and multi-tenant buildings. The lease rates are based on a full-service gross basis. The information contained in this report is gathered from sources that are deemed reliable, but no guarantees are made as to its accuracy. This information is for Voit Real Estate Services' use only and cannot legally be reproduced without prior written consent from the management of Voit Real Estate Services.

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Product Type

CLASS A: Most prestigious buildings competing for premier office users with rents above average for the area. Buildings have high-quality standard finishes, state-of-the-art systems, exceptional accessibility and a definite market presence.

CLASS B: Buildings competing for a wide range of users with rents in the average range for the area. Building finishes are fair to good for the area, and systems are adequate. However, Class B buildings cannot compete with Class A buildings of the same price.

CLASS C: Buildings competing for tenants requiring functional space at rents below the area average.

Submarkets

DOWNTOWN: Downtown

CENTRAL: City Heights/University, Coronado, Kearny Mesa, Mission Gorge, Mission Valley, Old Town/Point Loma, Park East, Rose Canyon/Morena, Uptown/Hillcrest

I-15 CORRIDOR: Escondido, Poway, Rancho Bernardo, Scripps Ranch

NORTH COUNTY COASTAL: Carlsbad, Del Mar Heights/Carmel Valley, North Beach Cities

NORTH CITY: Governor Park, La Jolla, Miramar, Sorrento Mesa, Sorrento Valley, Torrey Pines, UTC

SOUTHERN & EASTERN AREAS: Chula Vista, East County, National City, South San Diego, Southeast San Diego

HIGHWAY 78 CORRIDOR: Oceanside, San Marcos, Vista