

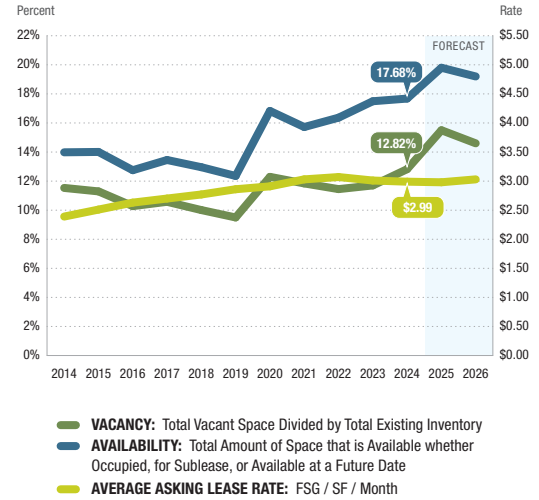
OVERVIEW. Leasing and sales volumes remained at low levels compared to historical norms in 2024. The market saw a modest amount of positive absorption in Q4, but the 2024 total remained in the negative. The countywide average asking rental rate moved lower in 2024, and the median price per square foot for offices reached its lowest level since 2017.

VACANCY & AVAILABILITY. Direct/sublease space (unoccupied) finished Q4 at 12.82%, a slight decrease from the previous quarter, but a 112-basis point increase from the level of a year ago. Available office space being marketed (regardless of occupancy status) was 17.68% of the county's inventory at the end of 2024, a decrease of 37 basis points over the prior quarter. Among the county's major submarkets (minimum of 5 MSF of inventory), Sorrento Mesa had the lowest availability, at 12%. Meanwhile, the availability rate in Downtown is at 36.5% and the vacancy rate there is greater than 31%. The relatively large amount of new office space that will be completed over the next year will continue to move the vacancy rate higher. Sublease availability recorded the greatest quarterly decrease of the past three years in Q4, moving from 2.8 MSF to 2.5 MSF.

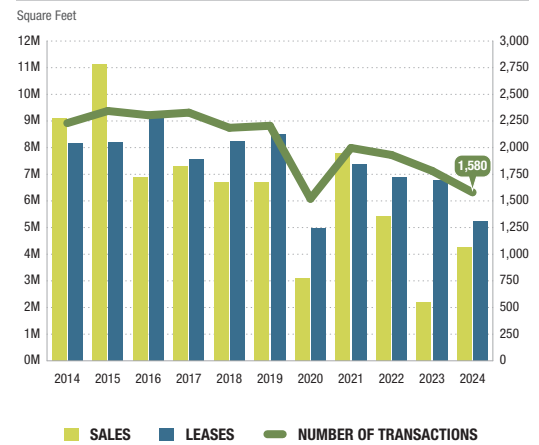
LEASE RATES. The average asking full-service-gross (FSG) lease rate per square foot per month in San Diego County was \$2.99 at the end of Q4, a two-cent increase from the prior quarter's rate. The average asking rate for San Diego office continued to move down from the peak of \$3.07 reached at the 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 clearly seeing the effects of decreased leasing activity, increased availability, and competition from sublease office space. 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. There were 5.2 MSF of leases recorded in 2024. Each of the prior three calendar years recorded more than 6.7 MSF of leasing activity. The number of office leases recorded in Q4 was 319. This was below the quarterly average of 447 transactions recorded between 2021 and 2023. Office sales volume remained constrained in 2024, with less than \$800 million in sales occurring. This was the second consecutive year with less than \$1 billion in office sales. Prior to 2023, the last time less than \$1 billion in office sold in a calendar year was in 2010. The Irvine Company registered the largest sale in each of the last two quarters of the year, as well as the second largest sale of Q4. These three office sales all occurred in Downtown and sold for an average of \$101 PSF, which was roughly a third of what the offices were acquired for two decades ago.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

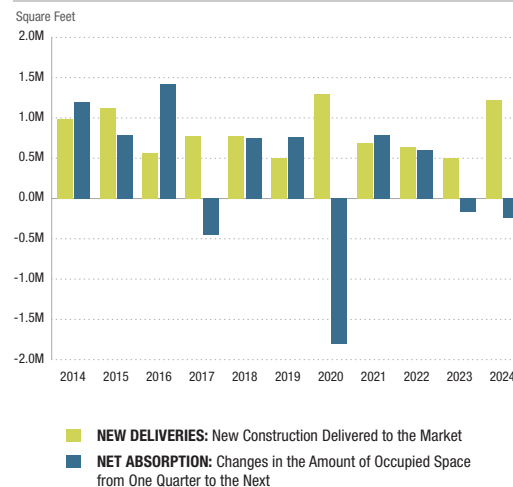
	Change Over Last Quarter	Q4 2024	Q3 2024	Q4 2023	% Change Over Last Year
Vacancy Rate	▼ DOWN	12.82%	12.94%	11.70%	9.56%
Availability Rate	▼ DOWN	17.68%	18.05%	17.50%	1.04%
Average Asking Lease Rate	▼ DOWN	\$2.99	\$3.01	\$3.01	(0.66%)
Sale & Lease Transactions	▲ UP	2,859,425	2,630,274	2,591,246	10.35%
Gross Absorption	▲ UP	1,469,335	1,452,359	1,857,171	(20.88%)
Net Absorption	▲ POSITIVE	76,937	60,180	323,859	N/A

ABSORPTION. There were 76,937 SF of positive net absorption in Q4, which was the third consecutive quarter of positive net absorption. Despite growth in the overall tenant footprint over the final three quarters, the market finished the year in the red with a net total of negative 244,491 SF. 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 2024. Much of the growth in that submarket has come in offices completed in 2024.

CONSTRUCTION. There were 1.2 MSF of new office deliveries in 2024, exceeding the annual totals of each of the previous three years. The 520,000 SF Torrey View development in Carmel Valley was the largest office development to come to fruition 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 end of 2024, IQHQ and Stockbridge are each still searching for an anchor tenant for their office developments under construction in Downtown San Diego. 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. A competing healthcare provider, Sharp, has a pair of new medical office buildings under way in Chula Vista: an expansion on their East Palomar site, and a new building at the Chula Vista Mall on H St.

EMPLOYMENT. The unemployment rate in San Diego County was 4.6% in November 2024, down from a revised 4.7% in October 2024, and above the year-ago estimate of 4.3%. This compares with an unadjusted unemployment rate of 5.3% for California and 4.0% for the nation during the same period. Over the 12-month period between November 2023 and November 2024, San Diego County employment increased by 8,900 jobs, an increase of 0.6%. With the normal delay in reporting from the California EDD, employment figures from December were unavailable at the time of publishing this report. For the nation as a whole, 256,000 jobs were added in December, for a total of 2.2 million jobs added in 2024.

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. Offices that sell at a discount will give new owners a lower basis, and the ability to move rental rates lower.

Significant Transactions

Sales

Property Address	Submarket	Class	Square Feet	Sale Price	Buyer	Seller
12760 High Bluff Dr.	Del Mar Heights	A	211,000	\$77,000,000	F&F Capital Group, LLC	EQ Office
225 Broadway	Downtown	A	363,102	\$48,000,000	XYZ Rent	The Irvine Company
101 W. Broadway	Downtown	A	452,436	\$43,933,000	Saca Development	The Irvine Company
9444 Waples St.	Sorrento Mesa	B	88,315	\$31,000,000	JPI/TDI	Alexandria RE Equities
2300 Boswell Rd.	Chula Vista	A	130,000	\$29,500,000	LandValue Management	Harbor Associates

Leases

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
1785 Millenia Ave.	Chula Vista	A	90,000	Dec-2024	Chula Vista Entertainment Complex	Chesnut Properties
3611 Valley Centre Dr.	Del Mar Heights	A	26,455	Nov-2024	Snell & Wilmer	(Sublease)
9191 Towne Centre Dr.	UTC	A	24,394	Oct-2024	Practice Tek	(Sublease)
1615 Murray Canyon Rd.	Mission Valley	A	22,505	Oct-2024	Berkley Insurance Company	CommonWealth Partners
501 W. Broadway	Downtown	A	20,465	Nov-2024	Jeff Tabor Group	The Irvine Company

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate Q4 2024	Square Feet Available	Availability Rate Q4 2024	Average Asking Lease Rate	Net Absorption Q4 2024	Net Absorption 2024	Gross Absorption Q4 2024	Gross Absorption 2024
Downtown													
Downtown	127	14,581,817	2,011,501	550,000	4,601,715	31.56%	6,054,719	36.49%	\$2.58	67,627	(205,042)	241,437	751,155
Downtown Total	127	14,581,817	2,011,501	550,000	4,601,715	31.56%	6,054,719	36.49%	\$2.58	67,627	(205,042)	241,437	751,155
Central													
City Heights / University	32	1,245,123	0	0	60,530	4.86%	75,158	6.04%	\$2.50	3,924	(13,254)	5,003	26,063
Coronado	4	84,540	0	0	600	0.71%	600	0.71%	-	(600)	(600)	0	0
Kearny Mesa	240	11,409,164	0	354,087	1,042,102	9.13%	1,474,212	12.92%	\$2.95	7,391	(160,812)	114,881	439,947
Mission Gorge	19	586,866	0	0	16,254	2.77%	28,225	4.81%	\$1.96	(9,286)	(13,952)	3,200	8,095
Mission Valley	129	7,484,575	0	1,130,925	1,213,913	16.22%	1,430,857	19.12%	\$2.95	67,530	118,883	254,345	748,542
Old Town / Point Loma	74	2,296,808	0	0	209,385	9.12%	250,494	10.91%	\$2.61	96	(6,659)	21,468	105,697
Park East	16	238,344	0	0	0	0.00%	0	0.00%	\$1.98	0	985	0	8,098
Rose Canyon / Morena	50	1,199,174	0	0	87,299	7.28%	104,304	8.70%	\$2.38	(14,622)	(46,356)	15,625	69,278
Uptown / Hillcrest	75	2,139,877	0	0	117,665	5.50%	161,073	7.53%	\$2.54	6,631	(2,241)	17,037	85,428
Central Total	639	26,684,471	0	1,485,012	2,747,748	10.30%	3,524,923	13.21%	\$2.86	61,064	(124,006)	431,559	1,491,148
I-15 Corridor													
Escondido	73	1,743,122	0	36,614	205,184	11.77%	406,938	23.35%	\$2.28	15,723	6,508	30,117	127,629
Poway	30	1,207,411	0	0	62,202	5.15%	80,639	6.68%	\$1.86	3,995	37,450	11,146	65,425
Rancho Bernardo	101	6,469,981	0	165,747	561,874	8.68%	935,008	14.45%	\$3.18	35,668	135,758	61,751	347,349
Scripps Ranch	49	2,744,134	0	356,000	583,658	21.27%	469,895	17.12%	\$2.99	(121,999)	(156,005)	25,612	57,853
I-15 Corridor Total	253	12,164,648	0	558,361	1,412,918	11.61%	1,892,480	15.56%	\$2.94	(66,613)	23,711	128,626	598,256
North County Coastal													
Carlsbad	163	6,828,912	0	50,000	1,046,052	15.32%	1,507,028	22.07%	\$2.64	(17,928)	(175,036)	146,230	414,155
Del Mar Heights / Carmel Valley	85	6,219,627	442,534	1,635,627	689,369	11.08%	1,148,540	17.24%	\$4.72	34,826	464,406	168,427	994,791
North Beach Cities	113	2,770,121	0	25,456	276,550	9.98%	382,069	13.79%	\$4.34	4,452	(48,210)	35,265	142,169
North County Total	361	15,818,660	442,534	1,711,083	2,011,971	12.72%	3,037,637	18.68%	\$3.36	21,350	241,160	349,922	1,551,115
North City													
Governor Park	19	768,582	0	0	46,656	6.07%	85,535	11.13%	\$3.01	10,638	31,403	21,877	88,207
La Jolla	45	1,374,873	0	0	195,812	14.24%	282,886	20.58%	\$3.68	(1,259)	2,850	8,505	88,972
Miramar	32	1,474,065	0	0	73,553	4.99%	617,880	41.92%	\$2.17	5,046	866	15,786	97,806
Sorrento Mesa	104	8,505,648	0	1,002,000	632,256	7.43%	1,022,030	12.02%	\$3.15	(38,698)	(105,555)	16,201	146,540
Sorrento Valley	21	611,165	0	0	145,371	23.79%	77,275	12.64%	\$2.49	(129)	(42,025)	4,050	8,288
Torrey Pines	40	3,020,942	0	309,094	46,131	1.53%	74,248	2.46%	\$3.88	(1,190)	(9,060)	0	12,337
UTC	90	9,172,962	558,183	400,000	953,017	10.39%	1,863,712	19.15%	\$3.76	9,708	(37,914)	100,126	524,175
North City Total	351	24,928,237	558,183	1,711,094	2,092,796	8.40%	4,023,566	15.79%	\$3.45	(15,884)	(159,435)	166,545	966,325
Southern & Eastern Areas													
Chula Vista	93	2,940,082	137,775	1,790,000	122,532	4.17%	141,517	4.60%	\$2.48	14,548	(2,385)	30,216	123,984
National City	16	583,906	0	0	57,096	9.78%	49,047	8.40%	\$2.56	(44,164)	(49,941)	5,439	10,323
South San Diego	15	400,710	0	0	51,111	12.76%	50,231	12.54%	\$2.70	(247)	5,091	5,333	19,174
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	3,844,407	0	50,000	137,827	3.59%	207,633	5.40%	\$2.50	20,551	(10,947)	47,944	161,432
Southern & Eastern Areas Total	290	8,250,705	137,775	1,840,000	370,801	4.49%	450,663	5.37%	\$2.49	(9,312)	(39,956)	88,932	333,139
Highway 78 Corridor													
Oceanside	62	1,495,487	0	218,235	141,491	9.46%	171,613	11.48%	\$2.54	523	10,285	14,300	77,949
San Marcos	38	1,486,212	0	1,470,287	62,269	4.19%	90,881	6.11%	\$2.40	1,686	4,662	19,350	49,964
Vista	51	1,264,366	0	0	235,148	18.60%	167,779	13.27%	\$2.33	16,496	4,130	28,664	63,459
Highway 78 Corridor Total	151	4,246,065	0	1,688,522	438,908	10.34%	430,273	10.13%	\$2.41	18,705	19,077	62,314	191,372
Class A	314	42,926,861	3,149,993	7,061,779	6,932,677	16.15%	11,134,246	24.16%	\$3.34	109,125	363,647	586,691	2,838,222
Class B	1,243	49,929,591	0	2,482,293	5,751,181	11.52%	7,173,325	14.37%	\$2.80	(35,991)	(401,832)	757,976	2,496,903
Class C	615	13,818,151	0	0	992,999	7.19%	1,106,690	8.01%	\$2.22	3,803	(206,306)	124,668	547,385
San Diego County Total	2,172	106,674,603	3,149,993	9,544,072	13,676,857	12.82%	19,414,261	17.68%	\$2.99	76,937	(244,491)	1,469,335	5,882,510

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



Another Slow Year

by **Jon Boland**

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The “new normal” is no longer new. The post-pandemic San Diego office market just completed its third consecutive year with leasing volume under seven million square feet. Prior to 2020, this market had a run of ten straight years above that line, with most of those years exceeding eight or nine million square feet of leasing per year. The overall office market still feels slow, but that no longer feels novel.

We are fast approaching half a decade into the post-pandemic era, and office-occupying businesses are still trying to get employees back into the office full time. The steady stream of national corporations announcing stricter in-office work mandates continued in 2024, with JPMorgan, Amazon, AT&T, and others making headlines. The pandemic-induced surge in remote work was sudden and jarring. The complete restoration of full-time in-office work to previous levels has been an arduous process. Some companies, and some positions, are more suited for remote and hybrid work than others. This was one factor in more office occupiers downsizing than those that expanded in 2024. These companies were able to find efficiencies in their business model that allowed them to operate with a smaller footprint. This contributed to the negative net absorption for 2024, and the increase in vacancy.

In an environment where vacancy is elevated compared to five years ago, greater landlord leasing concessions have become a fixture in many parts of the San Diego County office market. Promotional introductory lease rates were scarcely seen five years ago, but now it is a common occurrence. Despite the elevated concessions in the market, rental rates have not seen a precipitous drop, by and large. That is an area where landlords have yielded the least. Far fewer landlords have decreased face rates than those who have increased free rent in recent years.

2024 office-leasing volume in San Diego had another down year, but office sales increased somewhat. Office sales really had nowhere to go but up following the astonishingly low level seen in 2023. The increase in office sales was not necessarily due to new confidence and demand for office purchases. Much to the contrary, a number of offices sold at deep discounts in 2024, including three offices in Downtown which The Irvine Company disposed. The Irvine Company is a titan in the office market, and they often take a proactive approach to managing their office portfolio. They may have chosen to offload select properties now in the face of rising CMBS loan delinquencies which surpassed peak levels from the Great Recession by the end of 2024.

There were encouraging signs at the end of the year, with positive net absorption in the final quarter of 2024, and an uptick in activity. Despite a slow office market, we are not in a “sky is falling” scenario, and the best buildings in the market are no place to look for steep discounts.

Please Contact Us for Further Information

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714.978.7880	760.472.5620	909.545.8000	949.851.5100	424.329.7500	858.453.0505

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.

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