

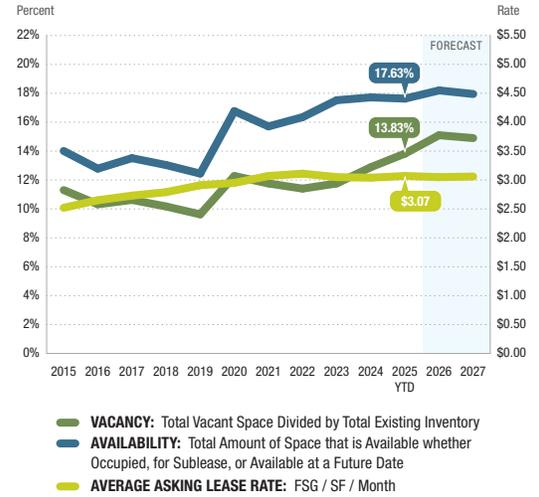
OVERVIEW. There were encouraging signs in Q1 with some positive net absorption, and no increase in the availability rate. Overall, market activity remains slow. The level of construction remains elevated, especially relative to the soft market.

VACANCY & AVAILABILITY. Direct/sublease space (unoccupied) finished Q1 at 13.83%, a sizable 160-basis point increase from the level of a year ago. Available office space being marketed (regardless of occupancy status) was 17.63% of the county's inventory at the end of Q1. The availability rate has remained relatively stable over the past four quarters. This spike in the vacancy while availability remains stable can be contributed to office buildings under construction coming to completion. Available space is counted as available but not vacant during construction, and after delivery the available space gets counted as vacant. Among the county's major submarkets (minimum of 5 MSF of inventory), Sorrento Mesa had the lowest availability, at 11.3%. Meanwhile, the availability rate in Downtown is 36.5% and more than a third of all office space in Downtown is vacant. Sublease availability across the county finished Q1 at 2.1%, decreasing for the second consecutive quarter.

LEASE RATES. The average asking full-service-gross (FSG) lease rate per square foot per month in San Diego County was \$3.07 at the end of Q1, a three-cent, or one percent, increase from the prior quarter's rate. The average asking rate for San Diego office is being bolstered by the substantial construction pipeline currently underway. A large amount of new office space coming to the market pushes the average rental rate higher. However, effective rental rates are down considerably from pre-Covid levels, with landlords regularly offering significant concessions to woo prospective tenants, such as first-year promotional teaser rates or free rent. The average effective rental rate is clearly seeing the impact 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. The number of office leases recorded in Q1 was 359. This was below the quarterly average of 412 transactions recorded between 2023 and 2024. The leasing market remains tepid as there are more office tenants downsizing than expanding. Office sales volume remained constrained in Q1, with 880,736 SF of office buildings trading hands. Since the start of 2023 there have been an average of 774,000 SF of office sales in the county, which is low even when compared to earlier years in the post-Covid era. During 2021 and 2022 there was an average of 1.6 MSF of office selling per quarter. Notably, there was not a single Class A office among the largest sales in Q1. Three of the largest office sales in the quarter were acquired by healthcare providers and a school district. This demonstrates that under current market conditions, economic sectors which are less susceptible to down cycles in the broader economy take a greater role.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

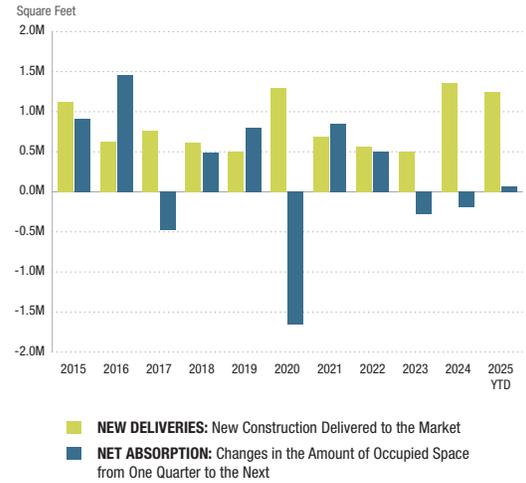
	Change Over Last Quarter	Q1 2025	Q4 2024	Q1 2024	% Change Over Last Year
Vacancy Rate	▲ UP	13.83%	12.89%	12.23%	13.03%
Availability Rate	▬ FLAT	17.63%	17.72%	17.56%	0.39%
Average Asking Lease Rate	▲ UP	\$3.07	\$3.04	\$3.04	0.99%
Sale & Lease Transactions	▼ DOWN	1,990,103	3,308,262	1,884,076	5.63%
Gross Absorption	▲ UP	1,686,582	1,456,791	1,286,584	31.09%
Net Absorption	▲ POSITIVE	66,142	(82,931)	(498,780)	N/A

ABSORPTION. There were 66,142 SF of positive net absorption in Q1. Ironically, the submarket with the most positive net absorption in Q1 was Downtown, which has been the poster child for softness in the local office market. The largest portion of the positive net absorption came from 1011 W. Union Street, with SANDAG accounting for the lion's share. While Downtown offices are facing significant vacancy pressure, this is a demonstration that new construction has been the primary recipient of positive net absorption within the market. Although Downtown had a positive net absorption tally in Q1, for a change, five of the seven other largest office submarkets recorded negative net absorption.

CONSTRUCTION. There were 1.2 MSF of new office deliveries in Q1, all from the RaDD project in downtown San Diego. The vaunted bayfront project has leased at least half of the 200,000 SF of retail space but has yet to announce any office or lab tenant signings. A development of this magnitude in such an exceptional location will certainly attract tenants over time. The question remains whether the project's landlord, IQHQ, will land the anchor tenant it needs to energize and accelerate the lease-up of the project. A good candidate would have been Bristol Myers Squibb, which will occupy the 427,000 SF office/R&D building under construction at Campus Point in UTC. There were 1.8 MSF of office space under construction in Q1. Other notable projects include Aperture Del Mar, a 3-building 443,000 SF development on Highway 56 which has been pre-leased by Neurocrine Biosciences. The only office under construction in Q1 without pre-leasing activity remains Stockbridge's redevelopment of Horton Plaza. The Downtown San Diego office market is languishing, and the RaDD and Horton projects are prime examples of that. Even the 234,000 SF office at 2100 Kettner and the 92,000 SF office at 450 B Street, which both completed construction in 2021, still retain well over half of their rentable area available for lease.

EMPLOYMENT. The unemployment rate in San Diego County was 4.4% in February 2025, down from a revised 4.5% in January 2025, and above the year-ago estimate of 4.3%. This compares with an unadjusted unemployment rate of 5.5% for California and 4.5% for the nation during the same period. Over the 12-month period between February 2024 and February 2025, San Diego County employment increased by 9,900 jobs, an increase of 0.6%. With the normal delay in reporting from the California EDD, employment figures from March were unavailable at the time of publishing this report. For the nation as a whole, 228,000 jobs were added in March, while the seasonally adjusted U.S. unemployment rate increased from 4.1% to 4.2%.

NEW DELIVERIES & NET ABSORPTION



Forecast

Office loan distress among U.S. Commercial Mortgage-Backed Securities remains near an all-time high. 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. Expect continued pressure on rental rates, especially among larger blocks of space, with elevated vacancy levels not expected to significantly improve over the coming months. The market remains heavily influenced by the tenant flight to quality, and landlords with well located, highly amenitized properties will continue to outperform.

Significant Transactions

Sales							* Voit Real Estate Services Deal
Property Address	Submarket	Class	Square Feet	Sale Price	Buyer	Seller	
875 El Cajon Blvd. & 1830-1840 West Dr.	El Cajon & Vista	B/C	65,729	\$39,729,500	San Ysidro Health	Turner Impact Capital, LP	
2110 S. Coast Hwy 101, Et Al	Oceanside	C	26,998	\$19,200,000	Asana Partners	Fabric Investments	
1350 Fashion Valley Rd.	Mission Valley	B	44,321	\$17,500,000	San Diego Unified School District	Clark Trust	
7065 Broadway	Lemon Grove	B	40,000	\$15,000,000	Family Health Centers of SD	Morelli Brothers Enterprises, LLC*	
9466 Black Mountain Rd.	Miramar	B	31,575	\$6,600,000	Hindu Mandir Society of San Diego	BMR 9466, LLC	

Leases						
Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
600 B St.	Downtown	A	44,544	Jan 2025	NewSchool of Architecture and Design	Rockwood Capital
4840 Eastgate Mall	UTC	B	41,609	Feb 2025	Undisclosed	The Irvine Company
17190 Bernardo Center Dr.	Rancho Bernardo	B	24,844	Feb 2025	Undisclosed	MD-Dannin, LLC
11512 El Camino Real	Del Mar Heights	A	20,518	Mar 2025	LifePro	American Assets Trust
8989 Rio San Diego	Mission Valley	B	20,088	Mar 2025	Considine & Considine	Silver Creek Holdings, LLC

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate Q1 2025	Square Feet Available	Availability Rate Q1 2025	Average Asking Lease Rate	Net Absorption Q1 2025	Net Absorption 2025	Gross Absorption Q1 2025	Gross Absorption 2025
Downtown													
Downtown	131	15,786,890	767,871	550,000	5,608,440	35.53%	6,039,211	36.48%	\$2.61	236,905	236,905	438,446	438,446
Downtown Total	131	15,786,890	767,871	550,000	5,608,440	35.53%	6,039,211	36.48%	\$2.61	236,905	236,905	438,446	438,446
Central													
City Heights / University	32	1,245,123	0	0	58,630	4.71%	71,118	5.71%	\$2.61	1,900	1,900	4,272	4,272
Coronado	4	84,540	0	0	0	0.00%	0	0.00%	-	600	600	600	600
Kearny Mesa	240	11,372,742	0	354,087	1,048,578	9.22%	1,389,095	12.21%	\$3.06	(6,476)	(6,476)	131,616	131,616
Mission Gorge	19	578,819	0	0	24,193	4.18%	24,193	4.18%	\$1.97	(7,939)	(7,939)	5,222	5,222
Mission Valley	129	7,481,776	0	1,130,925	1,276,948	17.07%	1,445,595	19.32%	\$3.00	(63,035)	(63,035)	121,254	121,254
Old Town / Point Loma	73	2,284,808	0	0	211,765	9.27%	246,227	10.78%	\$2.76	(2,380)	(2,380)	6,719	6,719
Park East	16	238,344	0	0	2,926	1.23%	6,638	2.79%	\$2.03	(2,926)	(2,926)	0	0
Rose Canyon / Morena	50	1,199,174	0	0	96,135	8.02%	114,616	9.56%	\$2.45	(8,836)	(8,836)	14,017	14,017
Uptown / Hillcrest	74	2,129,398	0	0	129,548	6.08%	167,700	7.88%	\$2.60	(12,833)	(12,833)	16,039	16,039
Central Total	637	26,614,724	0	1,485,012	2,848,723	10.70%	3,465,182	13.02%	\$2.94	(101,925)	(101,925)	299,739	299,739
I-15 Corridor													
Escondido	72	1,733,682	0	36,614	218,338	12.59%	366,408	21.13%	\$2.29	(16,154)	(16,154)	12,658	12,658
Poway	30	1,202,278	0	0	91,179	7.58%	111,130	9.24%	\$1.89	(28,977)	(28,977)	13,465	13,465
Rancho Bernardo	101	6,519,262	0	165,747	518,653	7.96%	891,551	13.68%	\$3.31	43,221	43,221	120,884	120,884
Scripps Ranch	48	2,691,122	0	356,000	574,671	21.35%	518,926	19.28%	\$3.10	8,987	8,987	46,645	46,645
I-15 Corridor Total	251	12,146,344	0	558,361	1,402,841	11.55%	1,888,015	15.54%	\$3.03	7,077	7,077	193,652	193,652
North County Coastal													
Carlsbad	163	6,864,746	0	50,000	1,052,146	15.33%	1,494,641	21.77%	\$2.62	(6,094)	(6,094)	107,881	107,881
Del Mar Heights / Carmel Valley	85	6,223,416	442,534	1,429,682	715,683	11.50%	1,230,113	18.45%	\$4.68	(26,314)	(26,314)	117,829	117,829
North Beach Cities	113	2,778,025	0	25,456	249,352	8.98%	348,081	12.53%	\$4.41	27,198	27,198	47,641	47,641
North County Total	361	15,866,187	442,534	1,505,138	2,017,181	12.71%	3,072,835	18.84%	\$3.34	(5,210)	(5,210)	273,351	273,351
North City													
Governor Park	19	769,603	0	0	50,462	6.56%	106,029	13.78%	\$3.19	(3,806)	(3,806)	100	100
La Jolla	45	1,374,476	0	0	191,450	13.93%	283,576	20.63%	\$3.70	4,362	4,362	22,957	22,957
Miramar	32	1,473,929	0	0	87,193	5.92%	633,697	42.99%	\$2.19	(13,640)	(13,640)	12,573	12,573
Sorrento Mesa	104	8,487,593	0	1,460,000	643,531	7.58%	956,323	11.27%	\$3.12	(81,574)	(81,574)	45,772	45,772
Sorrento Valley	19	494,528	0	0	130,957	26.48%	83,172	16.82%	\$2.38	3,361	3,361	7,211	7,211
Torrey Pines	39	3,079,697	0	154,547	63,112	2.05%	133,509	4.34%	\$3.93	(16,981)	(16,981)	992	992
UTC	93	9,413,014	427,000	400,000	1,110,914	11.80%	1,808,380	18.38%	\$3.84	8,336	8,336	209,067	209,067
North City Total	351	25,092,840	427,000	2,014,547	2,277,619	9.08%	4,004,686	15.69%	\$3.51	(99,942)	(99,942)	298,672	298,672
Southern & Eastern Areas													
Chula Vista	93	2,933,139	137,775	1,790,000	152,432	5.20%	177,040	5.77%	\$2.72	(29,900)	(29,900)	11,714	11,714
National City	16	583,906	0	0	40,524	6.94%	49,846	8.54%	\$2.69	16,572	16,572	17,922	17,922
South San Diego	16	416,044	0	0	9,482	2.28%	9,482	2.28%	\$2.85	41,629	41,629	41,629	41,629
Southeast San Diego	13	481,600	0	0	2,235	0.46%	2,235	0.46%	-	0	0	0	0
East County	153	3,820,903	0	50,000	124,745	3.26%	236,420	6.19%	\$2.97	10,859	10,859	51,807	51,807
Southern & Eastern Areas Total	291	8,235,592	137,775	1,840,000	329,418	4.00%	475,023	5.67%	\$2.87	39,160	39,160	123,072	123,072
Highway 78 Corridor													
Oceanside	62	1,495,487	0	218,235	122,290	8.18%	149,252	9.98%	\$2.68	19,201	19,201	29,648	29,648
San Marcos	38	1,486,212	0	1,470,287	69,708	4.69%	94,344	6.35%	\$2.42	(7,439)	(7,439)	20,042	20,042
Vista	51	1,265,005	0	0	256,833	20.30%	164,636	13.01%	\$2.59	(21,685)	(21,685)	9,960	9,960
Highway 78 Corridor Total	151	4,246,704	0	1,688,522	448,831	10.57%	408,232	9.61%	\$2.56	(9,923)	(9,923)	59,650	59,650
Class A	319	44,305,413	1,775,180	6,541,287	8,007,132	18.07%	10,999,992	23.87%	\$3.39	315,956	315,956	887,399	887,399
Class B	1,243	50,049,551	0	3,100,293	5,970,764	11.93%	7,272,997	14.53%	\$2.90	(271,300)	(271,300)	639,102	639,102
Class C	611	13,634,317	0	0	955,157	7.01%	1,080,195	7.92%	\$2.39	21,486	21,486	160,081	160,081
San Diego County Total	2,173	107,989,281	1,775,180	9,641,580	14,933,053	13.83%	19,353,184	17.63%	\$3.07	66,142	66,142	1,686,582	1,686,582

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



Out With the Old, In With The New

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The office market in San Diego is currently undergoing a dynamic transformation, shaped by the post-pandemic work environment, shifting tenant demands and evolving investment strategies. A recent example showcasing this shift is the sale of Symphony Towers in September of 2024, a preeminent 34-story office building in Downtown. The property sold for a significant discount versus the original purchase price in 2003. The sale highlights the challenges which San Diego's office market currently faces, as the adjustment to hybrid and remote work continues to be a significant part of the corporate landscape. This trend has resulted in the softening of demand for traditional office spaces, with many businesses opting for smaller, flexible office environments or fully remote models. However, despite these challenges, the office market in San Diego continues to show signs of resilience as businesses adapt to hybrid work models and seek spaces that promote collaboration, innovation, and overall employee well-being. Downtown remains a desired location for those office tenants seeking an urban environment. Properties like Symphony Towers still hold value in view of the long-term outlook, and attractive discounts on these types of properties represent a unique opportunity for new landlords to stake a presence here in San Diego.

In recent years, there has been an increased tenant demand for office spaces that offer amenities and modern designs, and that provide the path of least resistance when considering relocation. Properties with high-tech features, such as smart-building systems, unique energy-efficient designs, and on-site services like fitness centers and cafes, are becoming more desirable. In terms of location, areas like UTC, Downtown, and Sorrento Valley remain key hubs for commercial office space, with Class A properties—those with premium amenities and modern infrastructure—commanding strong demand in this current flight-to-quality environment. This was borne out in the Class A offices showing significant positive net absorption in the first quarter, while Class B properties saw their tenant occupancy footprint decline. The most desirable offices benefit from proximity to a skilled workforce, transportation options, and a desirable lifestyle, and these characteristics are particularly attractive to businesses in industries such as tech, healthcare, and defense. With that said, older and less modern buildings continue to battle rising vacancy rates, as tenants increasingly prioritize modern designs and upgraded facilities to enhance their working environments. The market's ability to adapt, with developers exploring mixed-use and flexible office solutions, will be crucial in navigating the post-pandemic landscape and ensuring sustained growth in the coming years.

Despite the challenges posed by an ever-changing landscape that continues to shape tenant preferences, San Diego remains an attractive destination for both tech startups and established businesses, with firms looking to capitalize on San Diego's innovation-driven industries. Our city's attractive climate, innovative economy, and lifestyle amenities ensure that demand for office space will endure.

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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