SD Q3 25

THIRD QUARTER 2025 MARKET REPORT

SAN DIEGO OFFICE

Voit REAL ESTATE SERVICES

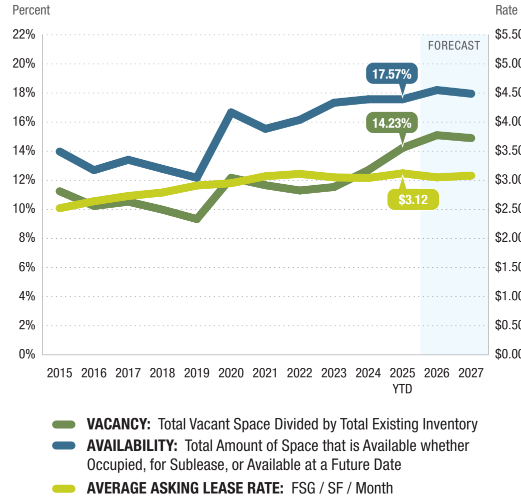
OVERVIEW. Leasing volume remains well below pre-Covid levels. This correlates directly to vacancy levels trending towards a third consecutive year of increase. Overall, market activity remains slow, and the level of new construction remains elevated, especially in light of the soft market.

VACANCY & AVAILABILITY. Direct / sublease space (unoccupied) finished Q3 at 14.2%, a jump of 1.8 percentage points from the level of a year ago. Available office space being marketed (regardless of occupancy status) was 17.6% of the county's inventory at the end of Q3. The availability rate has remained relatively stable over the past five 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), Kearny Mesa had the lowest availability, at 10.6%. Meanwhile, the availability rate in Downtown is 36.76% and more than a third of all office space in Downtown is vacant. Sublease availability across the county finished Q3 at 2.4 MSF, nearly a two-year low. Sublease availability appears to be receding from the recent peak of 2.8 MSF in Q2 2024, but remains well above the 1.4 MSF level set in 2020.

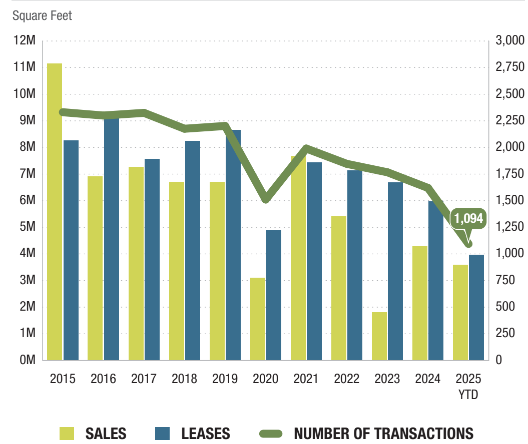
LEASE RATES. The average asking full-service-gross (FSG) lease rate per square foot per month in San Diego County was $3.12 at the end of Q3, a 2% increase from Q3 2024's rate of $3.06. The average asking rate for San Diego office is being bolstered by the substantial construction pipeline currently 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 the levels of two years ago. Landlords are regularly offering significant concessions to woo prospective tenants, such as first-year promotional teaser rates and 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. Four million square feet of office space was leased in the first three quarters of 2025. This extrapolates to 5.3 MSF for the year, which would be the fourth consecutive year of declining leasing volume. The leasing market remains tepid as there are more office tenants downsizing than expanding. There were 1.5 MSF of office sales in Q3, and there has been an average of 1.3 MSF of office buildings sold over the past five quarters. In the preceding seven quarters, the local office market averaged 541,000 SF of quarterly sales. The office sales market has been thawing out due in large part to The Irvine Company offloading their Downtown office towers at steep discounts. The latest sale was their disposition of the 414,000 SF office at 501 W. Broadway. They closed for $69M in July, less than half of the $150M price they paid in 2006. On the leasing side, three of the five largest office leases in the quarter were executed by government agencies.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

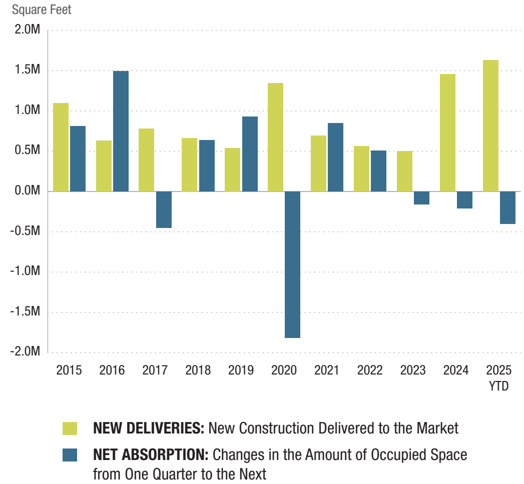
	Change Over Last Quarter		Q3 2025	Q2 2025	Q3 2024	Change Over Last Year
Vacancy Rate	▲	UP	14.23%	14.03%	12.44%	14.33%
Availability Rate	▬	FLAT	17.57%	17.53%	17.60%	(0.18%)
Average Asking Lease Rate	▲	UP	$3.12	$3.11	$3.06	1.96%
Sale & Lease Transactions	▲	UP	3,029,960	2,542,206	2,664,224	13.73%
Gross Absorption	▼	DOWN	1,149,251	1,198,494	1,451,544	(20.83%)
Net Absorption	▼	NEGATIVE	(222,683)	(376,685)	158,758	N/A

ABSORPTION. There were 222,683 SF of negative net absorption in Q3, putting the office-occupier footprint on pace to shrink for its third consecutive year. There are no major office occupiers seeing rapid growth as was the case with technology companies, such as Apple and ViaSat, in recent years. The Financial Services, Professional and Business Services, and Information employment sectors have all seen net job losses in San Diego County over the past year.

CONSTRUCTION. There were 1.6 MSF of new office deliveries in the first three quarters of 2025, with the bulk of that total coming from the RaDD project in Downtown San Diego. The vaunted bayfront project announced their first office/lab tenant in Q2, with the J. Craig Venter institute taking just under 50,000 SF. The project developer, IQHQ, is still looking to land the elusive "white whale" anchor tenant for the project more than five years after first breaking ground. There were 755,617 SF of office space under construction in Q3. The other major office development in Downtown San Diego, the redevelopment of Horton Plaza, is currently in limbo following foreclosure by the lender in September. The project offers over 0.5 MSF of office space and had yet to announce any office or lab leasing prior to foreclosure. 2025 is now the second consecutive year with more than 1 MSF of new office deliveries. There have been only two years with more than 1 MSF of new office deliveries among the preceding 14 years.

EMPLOYMENT. The unemployment rate in San Diego County was 5.0% in August 2025, down from a revised 5.2% in July 2025, and above the year-ago estimate of 4.9%. This compares with an unadjusted unemployment rate of 5.8% for California and 4.5% for the nation during the same period. Over the 12-month period between August 2024 and August 2025, San Diego County employment increased by 7,700 jobs, an increase of 0.5%. 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, 22,000 jobs were added in August, while the seasonally adjusted U.S. unemployment rate increased from 4.2% to 4.3%, the highest unemployment rate since October 2021.

NEW DELIVERIES & NET ABSORPTION



Forecast

CMBS-backed office mortgages saw delinquency rates spike to 11.7% in September, which is a record level now surpassing even the delinquency peak of the Great Recession. This has and will continue to 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

Property Address	Submarket	Class	Square Feet	Sale Price	Buyer	Seller
350 Camino De La Reina	Mission Valley	A	350,000	$92,000,000	Lincoln Property Group	CIM Group, LP
501 W. Broadway	Downtown	A	413,592	$69,000,000	XYZ.rent	The Irvine Company
5015 Shoreham Pl.	Governor Park	B	25,600	$13,500,000	SD Lighthouse Bible Church	Shoreham I, LLC
605 3rd Ave.	Uptown	B	14,398	$11,000,000	GLS Properties, LLC	Dudek
1650 Hotel Circle N.	Mission Valley	B	29,500	$8,200,000	Strongtower, LP	DPSS Properties, LP

Leases

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
7947 Mission Center Ct. – Renewal	Mission Valley	C	53,006	Jul-25	County of San Diego	Omninet Capital
350 Camino De La Reina	Mission Valley	A	52,196	Sep-25	Alliant Insurance	Lincoln Property Company
9275 Sky Park Ct.	Kearny Mesa	A	44,275	Aug-25	City of San Diego	Orum Capital
8880 Rio San Diego Dr. – Renewal	Mission Valley	A	35,369	Sep-25	Hyundai Translead	Hyundai Rio Vista, Inc.
9275 Sky Park Ct.	Kearny Mesa	A	34,535	Aug-25	GSA	Orum Capital

	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 2025	Square Feet Available	Availability Rate Q3 2025	Average Asking Lease Rate	Net Absorption Q3 2025	Net Absorption 2025	Gross Absorption Q3 2025	Gross Absorption 2025
Downtown													
Downtown	135	16,267,482	677,842	550,000	5,805,787	35.69%	6,228,720	36.76%	$2.47	(4,379)	84,892	234,577	873,636
Downtown Total	135	16,267,482	677,842	550,000	5,805,787	35.69%	6,228,720	36.76%	$2.47	(4,379)	84,892	234,577	873,636
Central													
City Heights/University	33	1,347,920	0	0	50,252	3.73%	81,050	6.01%	$2.61	(6,077)	10,278	8,767	27,494
Coronado	5	111,541	0	0	16,134	14.46%	16,134	14.46%	-	(2,855)	(2,255)	6,965	7,565
Kearny Mesa	241	11,404,659	0	0	1,101,028	9.65%	1,206,628	10.58%	$2.98	(51,580)	(119,261)	71,734	277,436
Mission Gorge	19	578,819	0	0	22,924	3.96%	20,269	3.50%	$1.94	(2,733)	(6,670)	2,038	11,262
Mission Valley	130	7,502,590	0	1,299,136	1,190,312	15.87%	1,132,865	15.10%	$3.08	25,501	(11,743)	109,806	359,695
Old Town/Point Loma	73	2,280,581	0	0	173,744	7.62%	199,103	8.73%	$2.75	24,255	35,641	27,826	55,905
Park East	15	223,904	0	0	4,292	1.92%	1,691	0.76%	$2.47	(1,366)	(4,292)	451	451
Rose Canyon/Morena	50	1,197,444	0	0	90,059	7.52%	87,122	7.28%	$2.59	419	(2,760)	11,328	43,981
Uptown/Hillcrest	74	2,129,227	0	0	147,812	6.94%	184,511	8.67%	$2.69	13,789	(31,897)	14,363	30,952
Central Total	640	26,776,685	0	1,299,136	2,796,557	10.44%	2,929,373	10.94%	$2.98	(647)	(132,959)	253,278	814,741
I-15 Corridor													
Escondido	72	1,733,799	0	36,614	216,330	12.48%	306,094	17.65%	$2.42	8,061	(14,146)	19,486	65,982
Poway	30	1,203,485	0	0	97,765	8.12%	117,414	9.76%	$2.02	9,384	(35,563)	15,218	33,056
Rancho Bernardo	102	6,538,296	0	165,747	506,125	7.74%	925,696	14.16%	$3.44	(11,693)	59,027	39,246	241,092
Scripps Ranch	49	2,770,848	0	356,000	658,407	23.76%	639,857	23.09%	$2.99	(4,592)	(54,808)	23,901	117,525
I-15 Corridor Total	253	12,246,428	0	558,361	1,478,627	12.07%	1,989,061	16.24%	$3.07	1,160	(45,490)	97,851	457,655
North County Coastal													
Carlsbad	164	6,902,165	0	50,000	1,089,174	15.78%	1,562,693	22.64%	$2.62	27,935	(33,766)	104,114	295,401
Del Mar Heights/Carmel Valley	87	6,540,563	0	1,561,625	758,405	11.60%	1,093,771	16.72%	$4.66	58	241,555	72,109	267,358
North Beach Cities	113	2,790,774	0	0	276,163	9.90%	340,641	12.21%	$4.43	(27,886)	387	34,128	127,089
North County Total	364	16,233,502	0	1,611,625	2,123,742	13.08%	2,997,105	18.46%	$3.29	107	208,176	210,351	689,848
North City													
Governor Park	19	768,805	0	0	62,526	8.13%	121,562	15.81%	$3.16	(2,022)	(15,870)	4,527	18,756
La Jolla	42	1,288,189	0	0	227,777	17.68%	281,821	21.88%	$3.79	(28,678)	(36,749)	5,775	56,186
Miramar	32	1,473,929	0	0	89,297	6.06%	693,609	47.06%	$2.45	7,105	(15,744)	20,523	38,459
Sorrento Mesa	100	8,329,371	0	1,460,000	723,272	8.68%	1,047,156	12.57%	$3.15	(20,412)	(190,948)	62,032	135,419
Sorrento Valley	19	495,074	0	0	126,478	25.55%	79,789	16.12%	$2.39	7,353	7,840	7,353	16,564
Torrey Pines	38	2,976,158	0	154,547	112,780	3.79%	184,970	6.22%	$4.31	(46,175)	(66,649)	9,090	10,082
UTC	90	9,124,604	0	866,598	1,137,515	12.47%	1,765,131	19.34%	$3.85	(78,258)	(184,498)	142,638	412,187
North City Total	340	24,456,130	0	2,481,145	2,479,645	10.14%	4,174,038	17.07%	$3.56	(161,087)	(502,618)	251,938	687,653
Southern & Eastern Areas													
Chula Vista	95	3,006,478	77,775	1,790,000	133,495	4.44%	142,185	4.61%	$2.68	(13,925)	34,457	28,292	71,648
National City	16	571,042	0	0	52,456	9.19%	64,532	11.30%	$2.72	2,002	4,640	5,427	26,699
South San Diego	16	425,669	0	0	45,374	10.66%	4,625	1.09%	$2.54	2,754	5,737	2,754	9,821
Southeast San Diego	13	481,600	0	73,592	3,435	0.71%	3,435	0.71%	-	0	(1,200)	0	0
East County	155	3,866,841	0	50,000	169,524	4.38%	256,737	6.64%	$2.91	(14,725)	(52,120)	36,180	100,038
Southern & Eastern Areas Total	295	8,351,630	77,775	1,913,592	404,284	4.84%	471,514	5.59%	$2.83	(23,894)	(8,486)	72,653	208,206
Highway 78 Corridor													
Oceanside	65	1,581,816	0	0	118,685	7.50%	136,779	8.65%	$2.74	(3,658)	46,496	11,490	77,341
San Marcos	38	1,487,995	0	1,470,287	86,106	5.79%	93,243	6.27%	$2.36	(17,865)	(23,837)	6,707	45,971
Vista	49	1,124,183	0	0	146,889	13.07%	178,491	15.88%	$2.56	(12,420)	(23,380)	10,406	43,022
Highway 78 Corridor Total	152	4,193,994	0	1,470,287	351,680	8.39%	408,513	9.74%	$2.53	(33,943)	(721)	28,603	166,334
Class A	318	44,143,305	755,617	6,815,985	7,964,640	18.04%	10,465,894	23.31%	$3.48	31,682	573,963	468,263	1,880,000
Class B	1,242	50,466,243	0	3,068,161	6,360,855	12.60%	7,522,732	14.91%	$2.96	(160,182)	(811,540)	568,979	1,681,686
Class C	619	13,916,303	0	0	1,114,827	8.01%	1,209,698	8.69%	$2.40	(94,183)	(159,629)	112,009	336,387
San Diego County Total	**2,179**	**108,525,851**	**755,617**	**9,884,146**	**15,440,322**	**14.23%**	**19,198,324**	**17.57%**	**$3.12**	**(222,683)**	**(397,206)**	**1,149,251**	**3,898,073**

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

THIRD QUARTER 2025 MARKET REPORT

SAN DIEGO OFFICE

Voit REAL ESTATE SERVICES

Owner-User Office Market Gains Momentum

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San Diego County's office owner-user market continues to demonstrate strength, underscoring sustained demand from occupiers seeking control and stability in an otherwise tenuous office environment. While the region has historically operated as a leasing market—shaped by decades of development favoring multi-tenant office projects—interest in ownership opportunities has remained a steady undercurrent, constrained primarily by limited supply.

For many businesses, the appeal of ownership is straightforward: principal paydown, equity appreciation, tax advantages, and the ability to lock in occupancy costs amid an uncertain leasing landscape. That motivation has grown significantly in recent years. According to a report from the Urban Land Institute (ULI), office owner-user transactions accounted for only 8% of all national office sales prior to 2020. By the first quarter of 2025, that share had surged to 20%. San Diego mirrors this national trend, with much of the local activity driven by healthcare and professional services groups.

Notable recent transactions highlight the depth of demand among medical and institutional owner-users. Sharp Healthcare expanded its footprint with acquisitions in Kearny Mesa, Chula Vista, and Alvarado Medical Plaza, along with their recent $30.7 million ($361 PSF) purchase of a former 24-Hour Fitness facility in Carlsbad. San Ysidro Health also grew its presence with a $39.7 million, three-building portfolio acquisition in East and North County ($604 PSF), while San Diego Lighthouse Church set a post-pandemic benchmark of $527 PSF, with its $13.5 million purchase of a 25,600-square-foot facility in Governor Park.

Market participants point to a growing pipeline of opportunities specifically designed for smaller users—a defining segment of the San Diego economy. Approximately 85% of San Diego's office tenants occupy less than 5,000 SF, a group that has historically faced limited ownership options. That imbalance is beginning to shift, with three new office condominium projects launching in 2025 across Sorrento Mesa, Governor Park, and Rancho Bernardo. A prime example is The Collective at Sorrento Mesa, currently undergoing a comprehensive interior and exterior renovation. The project will deliver a fully vacant, move-in-ready environment tailored to office and medical users. Located in the heart of San Diego's thriving technology and life science corridor, The Collective will offer suites ranging from 780 to 5,628 SF.

While traditional investment sales have cooled, the owner-user segment remains a bright spot in the broader office market. Although activity levels are still below 2021's peak, momentum is clearly building as the market heads into 2026—bolstered by improving financing conditions. SBA loan rates have recently dipped below 6% for the first time since 2022, offering renewed incentives for buyers seeking long-term cost certainty and stability. As 2026 approaches, San Diego's owner-user office sales market appears well positioned for continued resilience, supported by constrained supply, persistent demand, and a new wave of purpose-built inventory catering to the region's dominant base of small and midsize occupiers.

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

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