SD Q2 25

SECOND QUARTER 2025 MARKET REPORT

SAN DIEGO OFFICE

Voit REAL ESTATE SERVICES

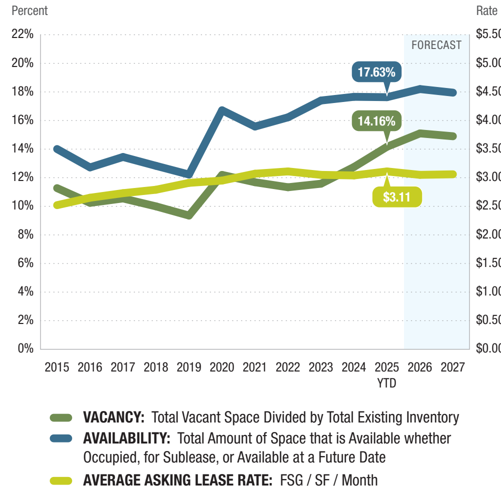
OVERVIEW. Leasing volume remains well below pre-Covid levels. This correlates directly to vacancy levels trending towards a third consecutive year of increase. Overall, market activity remains slow, but the level of new construction remains elevated, especially in light of the soft market.

VACANCY & AVAILABILITY. Direct / sublease space (unoccupied) finished Q2 at 14.16%, a significant increase of 1.9 percentage points 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 Q2. 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), Kearny Mesa had the lowest availability, at 11.1%. 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 Q2 at 2.3 MSF, the lowest total in two years. Sublease availability appears to be receding but remains well above the 1.4 MSF level it was at to start 2020.

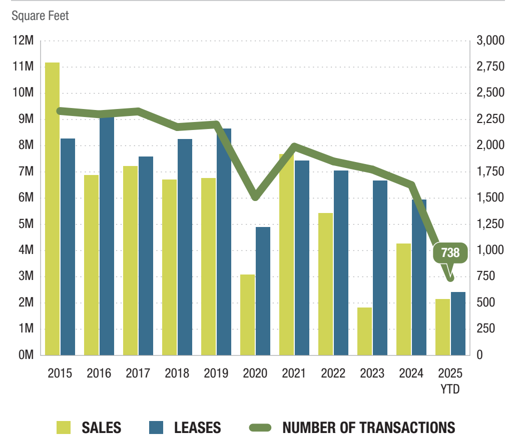
LEASE RATES. The average asking full-service-gross (FSG) lease rate per square foot per month in San Diego County was $3.11 at the end of Q2, a four-cent increase from the prior quarter's rate, and 2% increase from Q2 2024's rate of $3.05. The average asking rate for San Diego office is being bolstered 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. 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 amount of office space leased in the first half of 2025 was 2.4 MSF. This represents a pace of 4.8 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 was 1.2 MSF of office sales in Q2, and there has been an average of 1.3 MSF off office buildings sold over the past four quarters. In the preceding seven quarters, the local office market averaged 541,000 SF of quarterly sales. Two of the five largest office leases in the quarter were executed by the County of San Diego, and the Community College 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

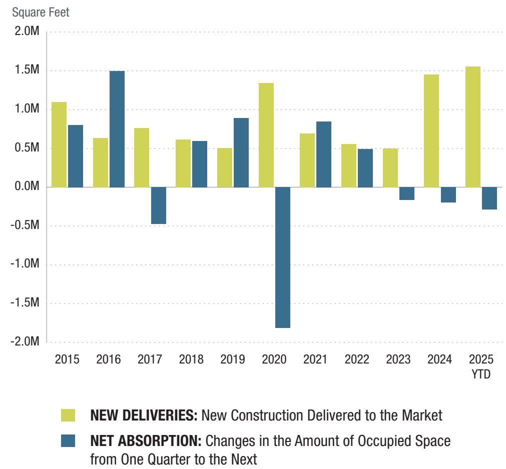
	Change Over Last Quarter		Q2 2025	Q1 2025	Q2 2024	% Change Over Last Year
Vacancy Rate	▲	UP	14.16%	13.75%	12.28%	15.35%
Availability Rate	▬	FLAT	17.63%	17.62%	17.42%	1.22%
Average Asking Lease Rate	▲	UP	$3.11	$3.07	$3.05	1.97%
Sale & Lease Transactions	▲	UP	2,461,512	2,067,576	2,215,636	11.10%
Gross Absorption	▼	DOWN	1,187,627	1,541,219	2,017,888	(41.15%)
Net Absorption	▼	NEGATIVE	(469,185)	182,186	427,627	N/A

ABSORPTION. There was 469,185 SF of negative net absorption in Q2, putting the market on pace for its third consecutive year of the office-occupier footprint shrinking. There isn't a major office employment sector 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 half of 2025, with more than 1 MSF coming from the RaDD project in Downtown San Diego. The vaunted bayfront project announced their first office / lab tenant in Q2. The J. Craig Venter Institute is taking just under 50,000 SF. This isn't an anchor tenant in terms of size, but in terms of prestige this cornerstone tenant gives the project a much-needed win. 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 be able to leverage this high profile signing to energize and accelerate the lease-up of the project. There was 815,617 SF of office space under construction in Q2. The other major office development in Downtown San Diego, Stockbridge's redevelopment of Horton Plaza, is currently facing foreclosure. The project offers over 0.5 MSF of office space and has yet to announce any preleasing. 2025 is now the second consecutive year with over 1 MSF of new office deliveries. There were only two years with more than 1 MSF of new office construction in the preceding 14 years.

EMPLOYMENT. The unemployment rate in San Diego County was 4.0% in May 2025, down from a revised 4.1% in Aril 2025, and above the year-ago estimate of 3.6%. This compares with an unadjusted unemployment rate of 4.9% for California and 4.0% for the nation during the same period. Over the 12-month period between May 2024 and May 2025, San Diego County employment increased by 16,200 jobs, an increase of 1%. With the normal delay in reporting from the California EDD, employment figures from June were unavailable at the time of publishing this report. For the nation as a whole, 147,000 jobs were added in June, while the seasonally adjusted U.S. unemployment rate decreased from 4.2% to 4.1%.

NEW DELIVERIES & NET ABSORPTION



Forecast

CMBS-backed office mortgages saw delinquency rates spike to 11.1% in June, which is a record level now surpassing even the delinquency peak of the Great Recession a dozen years ago. 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
12220 El Camino Real	Del Mar Heights	B	116,440	$48,500,000	Menlo Equities	PGIM
401 B St.	Downtown	A	521,502	$40,000,000	Prebys Foundation	The Irvine Company
1902-1903 Wright Pl.	Carlsbad	A	100,791	$23,000,000	Strauss Investments	Harbor Associates
9797 Aero Dr.	Kearny Mesa	A	92,463	$20,807,000	PriceSmart	AVID
1450 Frazee Rd.	Mission Valley	A	140,578	$20,250,000	HP Investors	Hill Properties / DRA Advisors

Leases

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
401 Mile of Cars Way - Renewal	National City	B	84,987	Apr-2025	County of San Diego	Bosa Development
11988 El Camino Real	Del Mar Heights	A	44,718	May-2025	Wilson Sonsini	Prudential
350 Camino De La Reina	Mission Valley	A	35,344	Jun-2025	Systems Planning & Analysis	The Casey Brown Co.
12340 El Camino Real	Del Mar Heights	A	27,000	Apr-2025	(Undisclosed)	Kilroy Realty Corp
1450 Frazee Rd.	Mission Valley	A	17,586	May-2025	San Diego Community College	HP Investors

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate Q2 2025	Square Feet Available	Availability Rate Q2 2025	Average Asking Lease Rate	Net Absorption Q2 2025	Net Absorption 2025	Gross Absorption Q2 2025	Gross Absorption 2025
Downtown													
Downtown	134	16,044,601	677,842	550,000	5,774,368	35.99%	6,096,112	36.45%	$2.47	(107,675)	103,052	225,873	652,840
Downtown Total	134	16,044,601	677,842	550,000	5,774,368	35.99%	6,096,112	36.45%	$2.47	(107,675)	103,052	225,873	652,840
Central													
City Heights / University	33	1,347,920	0	0	44,175	3.28%	69,933	5.19%	$2.61	14,455	16,355	14,455	18,727
Coronado	5	111,541	0	0	13,279	11.91%	13,279	11.91%	-	0	600	0	600
Kearny Mesa	242	11,422,612	0	0	1,120,650	9.81%	1,272,558	11.14%	$3.01	(26,686)	(78,548)	108,064	194,835
Mission Gorge	19	578,819	0	0	20,191	3.49%	20,191	3.49%	$1.99	4,002	(3,937)	4,002	9,224
Mission Valley	129	7,476,580	0	1,299,136	1,215,813	16.26%	1,279,677	17.12%	$3.06	25,791	(37,244)	128,635	249,889
Old Town / Point Loma	73	2,282,073	0	0	197,999	8.68%	228,206	10.00%	$2.76	13,766	11,386	21,360	28,079
Park East	15	223,904	0	0	2,926	1.31%	3,377	1.51%	$2.47	0	(2,926)	0	0
Rose Canyon / Morena	50	1,199,174	0	0	90,478	7.55%	112,082	9.35%	$2.53	7,442	(3,179)	18,636	32,653
Uptown / Hillcrest	75	2,137,351	0	0	161,601	7.56%	207,988	9.73%	$2.60	(32,053)	(44,886)	1,350	17,389
Central Total	641	26,779,974	0	1,299,136	2,867,112	10.71%	3,207,291	11.98%	$2.96	6,717	(142,379)	296,502	551,396
I-15 Corridor													
Escondido	72	1,733,799	0	36,614	224,391	12.94%	348,432	20.10%	$2.27	(6,053)	(22,207)	33,838	46,496
Poway	30	1,200,197	0	0	107,149	8.93%	123,688	10.31%	$1.92	(15,970)	(44,947)	4,373	17,838
Rancho Bernardo	101	6,519,701	0	165,747	527,154	8.09%	977,453	14.99%	$3.37	(8,501)	34,720	80,962	201,846
Scripps Ranch	49	2,771,318	0	356,000	653,815	23.59%	636,009	22.95%	$3.02	(59,203)	(50,216)	46,979	93,624
I-15 Corridor Total	252	12,225,015	0	558,361	1,512,509	12.37%	2,085,582	17.06%	$3.03	(89,727)	(82,650)	166,152	359,804
North County Coastal													
Carlsbad	164	6,895,691	0	50,000	1,117,109	16.20%	1,584,751	22.98%	$2.63	(52,860)	(61,701)	83,406	191,287
Del Mar Heights / Carmel Valley	87	6,541,613	0	1,561,625	758,463	11.59%	1,176,091	17.98%	$4.71	(36,305)	241,497	83,895	195,249
North Beach Cities	113	2,777,482	0	36,132	248,277	8.94%	325,609	11.72%	$4.41	1,075	28,273	45,320	92,961
North County Total	364	16,214,786	0	1,647,757	2,123,849	13.10%	3,086,451	19.03%	$3.36	(88,090)	208,069	212,621	479,497
North City													
Governor Park	19	768,805	0	0	60,504	7.87%	104,343	13.57%	$3.21	(5,658)	(13,848)	14,129	14,229
La Jolla	42	1,293,809	0	0	199,099	15.39%	292,305	22.59%	$3.72	(4,571)	(8,071)	30,588	50,411
Miramar	32	1,473,929	0	0	96,402	6.54%	666,551	45.22%	$2.37	(9,209)	(22,849)	5,363	17,936
Sorrento Mesa	100	8,327,785	0	1,460,000	727,517	8.74%	1,037,969	12.46%	$3.19	(88,962)	(170,536)	27,615	73,387
Sorrento Valley	19	495,074	0	0	133,831	27.03%	78,063	15.77%	$2.41	(2,874)	487	2,000	9,211
Torrey Pines	39	3,089,213	0	154,547	66,605	2.16%	113,311	3.67%	$4.31	(3,493)	(20,474)	0	992
UTC	90	9,108,884	0	400,000	1,059,257	11.63%	1,599,796	17.56%	$3.91	(82,130)	(106,240)	92,928	269,549
North City Total	341	24,557,499	0	2,014,547	2,343,215	9.54%	3,892,338	15.85%	$3.57	(196,897)	(341,531)	172,623	435,715
Southern & Eastern Areas													
Chula Vista	95	2,961,732	137,775	1,790,000	134,150	4.53%	142,374	4.59%	$2.66	18,282	(11,618)	31,642	43,356
National City	16	583,906	0	0	54,458	9.33%	57,583	9.86%	$2.70	(13,934)	2,638	3,350	21,272
South San Diego	16	421,115	0	0	48,128	11.43%	7,379	1.75%	$2.65	2,103	2,983	6,187	7,067
Southeast San Diego	13	481,600	0	73,592	3,435	0.71%	3,435	0.71%	-	(1,200)	(1,200)	0	0
East County	152	3,802,975	0	50,000	153,299	4.03%	260,382	6.85%	$2.98	(24,136)	(35,895)	14,369	63,858
Southern & Eastern Areas Total	292	8,251,328	137,775	1,913,592	393,470	4.77%	471,153	5.62%	$2.84	(18,885)	(43,092)	55,548	135,553
Highway 78 Corridor													
Oceanside	62	1,495,200	0	218,235	113,027	7.56%	138,313	9.25%	$2.67	9,263	28,464	12,513	42,161
San Marcos	38	1,487,995	0	1,470,287	68,241	4.59%	82,470	5.54%	$2.27	5,384	(5,972)	23,139	39,264
Vista	51	1,173,337	0	0	134,469	11.46%	167,813	14.30%	$2.46	10,725	(10,960)	22,656	32,616
Highway 78 Corridor Total	151	4,156,532	0	1,688,522	315,737	7.60%	388,596	9.35%	$2.45	25,372	11,532	58,308	114,041
Class A	318	44,300,684	815,617	6,841,441	7,995,568	18.05%	10,491,142	23.25%	$3.46	(158,273)	436,815	510,451	1,381,742
Class B	1,245	50,173,966	0	2,830,474	6,327,876	12.61%	7,569,559	15.09%	$2.95	(298,874)	(662,657)	567,263	1,125,089
Class C	612	13,755,085	0	0	1,006,816	7.32%	1,166,822	8.48%	$2.41	(12,038)	(61,157)	109,913	222,015
San Diego County Total	**2,175**	**108,229,735**	**815,617**	**9,671,915**	**15,330,260**	**14.16%**	**19,227,523**	**17.63%**	**$3.11**	**(469,185)**	**(286,999)**	**1,187,627**	**2,728,846**

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

Have Historical Real Estate Proverbs Held True in the Covid Era?

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For the 30+ years I've been in the commercial real estate business, there have been two axioms that historically hold true. First, what happens in the Bay Area comes to Southern California commercial real estate 12–18 months later. In this most recent and highly unusual five-year real estate cycle, starting with Covid-19 stay-at-home orders, the San Francisco Bay office market led most of the country with a "live anywhere and telecommute" mantra. The days of the need for corporate headquarters were over. Southern California (and rest of the country) predictably followed San Francisco/Silicon Valley tech companies, and between 2020 and 2023 the office market was pronounced dead as vacancy spiked.

Fast forward to late 2024 and the first half of 2025, and the Bay Area secured 11 of the top 100 U.S. office leases, ranking third nationwide (behind Manhattan and D.C.) with tech companies signing more than eight million square feet of space. Q2 2025 marked the third consecutive quarter of positive net absorption, totaling 610,000 SF, the strongest quarterly gain since 2018. This first axiom held true during the first 3+ years of Covid and now the San Diego market is watching to see if it works on the rebound. So far, it does appear the Southern California office market has bottomed and is poised for a slow comeback. This comeback may accelerate as return-to-office mandates gain traction and office tenants sense the highly skewed office market may be tilting towards equilibrium. All in all, positive Bay Area office absorption for the last three quarters bodes well for the future of Southern California office markets.

The second axiom states that as the residential market goes, so goes commercial real estate 12–18 months later. As with the office market, residential product has seen an unusual five-year cycle triggered by Covid-19. Between 2020 and 2022, housing prices increased 50% or more in many Southern California residential markets and volume hit historic records. By 2023, housing prices were at record highs and interest rates were quickly moving to nearly double those in the 2020–2022 period. Housing sales volume and inventory plummeted and has stayed in the doldrums until present day.

Commercial real estate generally followed this pattern with heavy transaction volume between 2020–2022, rapid price increases through 2022, and then a significant drop in volume through the present time. In this unusual cycle, residential and commercial moved in near lockstep without much of a time delay. Both residential and commercial markets continue to have near record low sales transaction volume, with non-distress sale prices still in the vicinity of all-time highs, despite elevated interest rates, a lack of buyers in the market, and a lack of quality inventory. Office has been the only major market segment that hasn't benefitted through this last five-year period. There are growing signs that residential inventory is increasing, which should drive more transaction volume. If we can avoid a downturn in residential prices as inventory spikes, this second historically accurate axiom suggests commercial real estate will follow with increased inventory leading to increased transaction volume — even for the long-suffering office market.

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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