INVESTMENT FORECAST

Office

San Diego Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

2025

Local Submarket Stands Out on a Regional Level; Property Owners in Tourist Corridors Well Positioned

Metro poised for another year of moderate vacancy adjustment. San Diego entered 2025 on a three-year stretch of sub-5 percent vacancy, largely due to tenant demand in Central San Diego. Accounting for 30 percent of the metro's inventory, this submarket — which includes downtown, Mission Valley and beach communities — has the lowest vacancy of California submarkets with at least 20 million square feet of retail stock. Near term, available space in the area should remain minimal, as its active pipeline is scant and a long-vacant, 260,000-square-foot building was demolished earlier this year. The preservation of tight conditions here will prevent a notable shift in metrowide vacancy from occurring in 2025. Beyond this year, Central San Diego retailers, specifically those reliant on tourism, are in a favorable position. Over the next two years, the number of cruise passengers boarding in San Diego will double, as Royal Carribean and Norwegian Cruise Line each homeport here for the first time.

Active investors prioritize areas populated by younger consumers. As more capital re-engages with the marketplace in 2025, San Diego is poised to attract investors seeking assets in metros with a reputation for steady tenant demand and limited supply-side pressure. Private buyers targeting restaurants and mixed-use properties with ground floor retail will compete for listings in central beach communities and neighborhoods surrounding Balboa Park popular with young professionals and college students. Pricing for these assets here rarely falls below $600 per square foot. These same buyers and those targeting strip and neighborhood centers may also consider assets proximate to San Diego State University, University of California San Diego and Cal State San Marcos, as enrollment at each college has reached a record mark.

2025 MARKET FORECAST

+0.5% — **EMPLOYMENT:** Job creation mirrors last year, with employers adding 8,000 positions. Retail trade-related sectors will factor into this job creation after contributing 2,100 new roles last year.

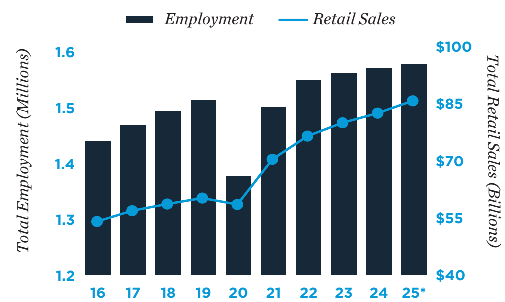
140,000 *sq. ft.* — **CONSTRUCTION:** For a fourth straight year, developers grow local retail stock by 0.1 percent. A 85,000-square-foot Lifetime Fitness in Chula Vista is the largest project on tap for delivery.

+20 bps — **VACANCY:** Vacancy rises moderately during 2025, extending a recent two-year trend. At 4.7 percent, however, the metro's year-end rate will be just 10 basis points above its long-term average.

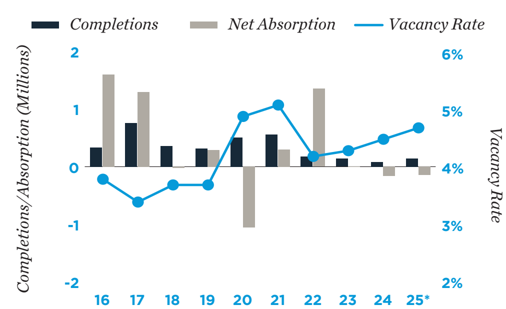
+1.0% — **RENT:** Similar to other major Southern California markets, a moderate shift in vacancy allows the metro's average asking rent to rise slightly, ending the year at $29.50 per square foot.

INVESTMENT: *The completion of new housing at three major golf course redevelopments along the Interstate 15 Corridor should boost future retail spending in the area, potentially attracting more investors to listings.*

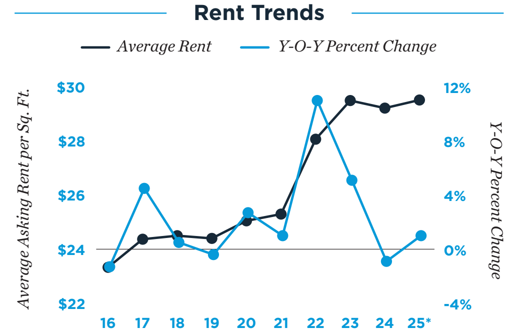
Economic Trends



Supply and Demand



Rent Trends



* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of December 2024. Effective rent is equal to asking rent less concessions. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at $1,000,000 and greater unless otherwise noted. Forecasts for employment and apartment data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guarantee regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.

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