

INVESTMENT FORECAST

Office
San Diego Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

2025

Historically Elevated Vacancy and Speculative Pipeline Overshadow Encouraging Absorption Tallies

Disparity between downtown and suburban vacancy poised to expand. San Diego's office sector closed out 2024 with its highest year-end vacancy rate since 2009. Still, reasons for optimism exist. The metro's downtown registered its strongest year on record for net absorption during 2024, led by an improvement in Class A demand. Meanwhile, San Diego's suburbs noted positive absorption, albeit slight, across property tiers, preserving a collective vacancy rate outside the CBD that is nearly on par with the long-term average. Noteworthy absorption across different locations and property tiers suggests the recent rise in vacancy is the byproduct of speculative supply additions. This dynamic will continue to impact local fundamentals in 2025, specifically downtown. More than 1.2 million square feet is slated for 2025 delivery here, including four buildings along the waterfront that were 90 percent available as of January. In the suburbs, roughly 1.1 million square feet is scheduled for completion; however, all of this space is accounted for.

Emerging dynamics may expand buyer pool. Positive absorption in the CBD and suburbs over the past year and recent local price correction may attract more investors to San Diego listings. Home to the third-lowest vacancy rate among West Coast submarkets with at least 25 million square feet of stock, Central San Diego may stand out among the metro's traditional office hubs. Neighborhoods here proximate to Balboa Park, including Hillcrest and Bankers Hill, should garner the most attention among active buyers. Elsewhere, South Bay may offer investors upside potential. Entering this year, local vacancy was 5.5 percent, with the average asking rent well below the metro average. An \$85 million film studio slated for 2025 delivery in Chula Vista, the submarket's largest city, may foster future demand for office space suitable for post-production services.

2025 MARKET FORECAST

+0.5%



EMPLOYMENT: Overall hiring velocity is projected to mirror 2024; however, the traditionally office-using sector is expected to add jobs for the first time in three years, albeit with a modest 500 roles.

2,380,000
sq. ft.



CONSTRUCTION: Delivery volume surpasses the 2-million-square-foot mark for the first time since 2008, as this year's total exceeds the combined tally from 2022 to 2024.

+60 bps



VACANCY: Positive demand is noted in 2025; however, a wave of speculative deliveries lift vacancy to 16.9 percent — a rate 200 basis points above the metro's long-term average.

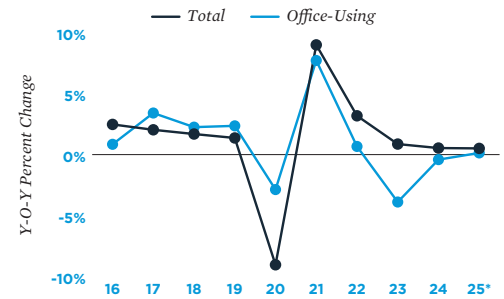
-2.1%



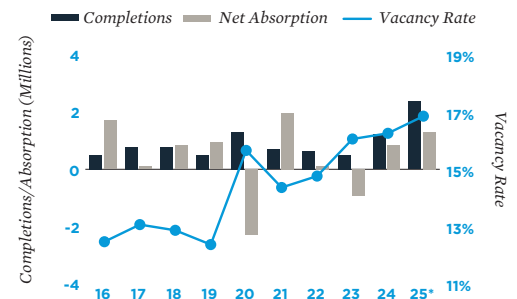
RENT: A fourth straight year of vacancy increases weighs on asking rents, lowering the metro's average marketed rate to \$32.70 per square foot. Declines should be apparent across property types.

INVESTMENT: San Diego's medical office sector started 2025 with a vacancy rate nearly 200 basis points below its long-term mean. This, along with a scant pipeline and record asking rent, should enhance these listings' appeal.

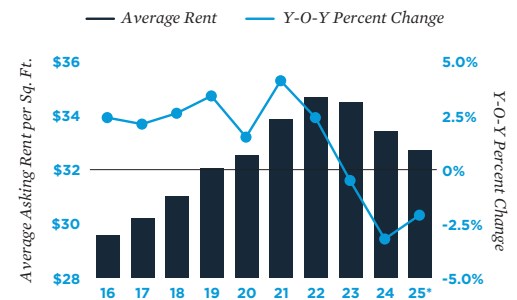
Employment Trends



Supply and Demand



Rent Trends



* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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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.