San Diego Lodging Forecast 2025

By Gary London and Bob Rauch

Introduction

The real estate market in San Diego and nationally has been in recession. The cost of money, as well as the other factors of production – land, labor, and materials—have been prohibitively expensive. As such, while major projects are under construction and completed, a relative dearth of new projects is expected for the coming year. The good news is that inflation is way down, the cost of capital is receding, and underwriting standards should be loosened.

However, real estate and land use move at a snail's pace, so while the trend is good, there will not be many new "shovel in the ground" projects coming in 2025. The region is probably two years out for most projects in the planning stages. After the San Diego lodging overview, below is a brief tour of what is happening and what to expect throughout the region in the coming year.

San Diego Lodging Overview

San Diego's economy is generally supported by three primary sectors: defense, tourism, and technology/innovation. These three sectors are the largest in San Diego and account for over 30% of the market's employment. This content should serve you well when drafting your Business Plan for 2025.

Key Economic Highlights

According to Lodging Analytics Research & Consulting (LARC), local Gross Metropolitan Product (GMP) is forecast to increase at a 1.8% compound annual growth rate (CAGR) through 2028, ranking it 43rd among LARC's 62 markets. San Diego's economy is diversified, with no one sector accounting for over 23% of GMP. Since the pandemic concluded, the fastest-growing sectors have been Leisure and Hospitality and Transportation and Utilities.
Population growth has begun to slow across the MSA. Positive net migration trends have started to shift, and the population is expected to be flat through 2028.

By year-end 2024, San Diego hotels are forecast to see a RevPAR increase of 1.0%, according to CBRE. This results from an estimated minor increase in occupancy of 0.1% and a 0.9% gain in average daily room rates (ADR). The 1.0% advance in San Diego RevPAR is less than the national projection of a 1.2% increase. Year-end San Diego RevPAR will be 22.4% greater than the 2019 year-end RevPAR level of $125.61. Leading the way in 2024 RevPAR growth is the middle-priced segment of San Diego. Middle-priced properties are forecast to attain a 1.9% gain in ADR, but suffer a 0.1% decrease in occupancy, resulting in a 1.8% RevPAR increase. Upper-priced hotels are projected to experience an ADR growth rate of 0.2%, along with a 0.2% gain in occupancy, resulting in a 0.4% RevPAR increase.

Also according to CBRE, San Diego RevPAR is expected to grow 2.8% in 2025, better than the forecasted growth rate for 2024. Prospects for RevPAR growth in the upper-priced segment (3.2%) are better than in the lower-priced segment (0.3%). San Diego market occupancy levels are expected to range from 76.0% to 77.5% during their 5-year forecast period.

Tourism Economics and the San Diego Tourism Authority Forecast Data

Tourism Economics (TE), in conjunction with SDTA is forecasting the region to finish 2024 up .3% in occupancy, or essentially flat from 2023. Average rates will finish up .8% with RevPAR up right around 1%. 2025 shows modest improvement to occupancy up 1% and average rates up 1% for an increase in RevPAR of 2%. Some good news is that there is almost no new supply, and the Gaylord, with 1600 rooms, will be a demand driver for the region and is not likely to compete with individual hotels—certainly not to the extent that another downtown hotel with 1000 rooms would be.

The occupancy rate in San Diego County was 76.8% in 2019 and is headed toward 74% in 2024, up from 73.7% in 2023. Average rates were $166.44 in 2019 and is headed toward $212, up from $210.02 in 2023. However, the costs of operations are also up wildly! Ergo, despite occupancy levels approaching 2019 levels and growing average rates by nearly $50 in five years, costs are high enough to keep profits at or below five years ago. Since San Diego has stabilized, we will show 2019 numbers for comparison, but the real key is that 2024 to 2025 will be up somewhere between 1-3% in RevPAR.

Prediction for 2025 – 74.3% at $214

San Diego CBD

The post-COVID period has not been kind to San Diego CBD's commercial inventory. Reported vacancies in the office market are officially pegged at around 25%, which in itself would be the weakest market, perhaps ever. Yet, the actual number might be closer to 50%. This is compounded by a first-in-this-century explosion of new office space now coming online, primarily in three mega projects (The West, IQHQ, and Horton Plaza). When all projects are completed, there will be well over three million square feet of added inventory.

However, across all sectors of office employment, companies are downsizing their office space requirements to meet the sticky post-covid working habits of at-home workers or some variation of home and office. It all translates to compressed demand. The primary beneficiaries will likely be the newer projects at Downtown San Diego's west end. The B Street corridor buildings have the most to lose, as they will be "cannibalized," a market result of the newer buildings unlikely to lure new tenants downtown.

To add complexity, the apartment market has reached peak rental demand and is now showing occupancy slippage and some decline in lease rates. Combining that with the high costs of financing, labor, and materials and substantially more stringent underwriting requirements, there is sure to be a stop to the boom of new residential construction. The Padres are winning, and downtown has a stable and substantial restaurant and entertainment scene. But these are the dog days of CBD real estate.

The hotel market remains strong; however, a limited number of products are coming online. Since 2019, supply has been slightly up, while demand has been slightly down. Occupancy in 2019 was 80.9%, and in 2024, it will likely finish at 77%. Average rates were $208.08 in 2019 and will likely finish at $260 this year. 2025 should show a small boost toward 2019 occupancy levels as group business returns. Bookings for 2025 are pacing down 3% year-over-year, but beyond 2025, trends are robust, with 2026 year-over-year pace up 9%, 2027 flat, and 2028 up 25%, according to LARC.

Prediction – 78% at $265

<u>Mission Valley</u>

Mission Valley feels like one long construction site, as numerous apartment projects have recently been completed or are under construction along the north side of the I-8 corridor. Along Friars Road, the large Hines master plan, called River Walk, is on temporary hold. The project will eventually add thousands of residential units and attractive supporting commercial along the trolley line. But not so fast, as Hines recently announced that shovels are down for perhaps the next three years. But once it starts, it will be transformational to that corridor.

The owners of Fashion Valley shopping center, Simon, announced their intent to demolish Penney's structure on its west side and add over 800 residential units at that location and the adjacent parking lot. Not to be outdone, Lowe has purchased Mission Valley Center and will also add a similar number of residential units, although they are not currently planning to eliminate any retail. A Home Depot is about to be constructed on the south side of the I-8, north of Mission Center Road, the first of several projects along that road that will replace old structures and businesses. Many projects are in the works, although no public announcements are yet.

This submarket has seen more renovation than new supply growth. Occupancy in 2019 was 78.2% and will finish 2024 at around 77%. Average rates in 2019 were $127.09 and will finish 2024 at around $164.

2025 Prediction based on a solid reliance on leisure travel – 77% at $167

San Diego North City & County

The healthiest real estate market in the region is San Diego's north county, although it is less dynamic than other areas. Real estate values have gotten higher, and demand is exceptional, particularly among the elite coastal cities, including Del Mar, Solana Beach, and north through Carlsbad. While not imminent, the Del Mar Fairgrounds lays the groundwork for intensive redevelopment, but initiation is probably some years away.

Multiple projects have been completed or in process over the past year, including a new soccer stadium in Oceanside, completion of scientific and tech buildings in Sorrento Mesa and Torrey Pines, some new housing developments in Oceanside, and the continued buildout of the university community in San Marcos. There is virtually no activity in the unincorporated north county and not much along the inland I-15 corridor in and around Escondido. This absence of development in this land-rich portion of the region must be cured by a more attentive policy focus, particularly by the County Board of Supervisors.

Further south in the UTC area, the prospective redevelopment of the Costa Verde center has been delayed by its acquiring developer, Alexandria, who is reconceptualizing the project from technology/life science-centric to residential-dominant. Its big neighbor to the west, the UTC mall, is expanding its footprint for more commercial space at the location of the old Nordstrom building.

UCSD has been in an expansion frenzy in both classroom and student residences. This is an entirely new and dense campus for old-timers who have not visited lately. More to come: The Chancellor recently announced the upcoming development of 7,000 student residences, designed to cure the pressure for student housing in surrounding communities, particularly University City. That neighborhood now has a new community plan, which will transform the community from suburban to urban when implemented over the coming decades.

In old La Jolla, there is a movement afoot to break away from the City of San Diego and form the City of La Jolla (but not UCSD!). The movement wastes time, as a proposal must pass through LAFCO and voters. It probably can't make fiscal sense. And it most certainly doesn't make political sense. In the meantime, the village of La Jolla is going through a quiet mini-development boom with several smaller mixed-use, relatively low-density projects, particularly along Girard Ave. and La Jolla Blvd. These are welcome land-efficient projects, and more will probably come over time along the commercial corridors in the village.

New supply is entering the market in Carmel Valley and has already entered Carlsbad and Oceanside. In 2019, occupancy in the UTC/Sorrento Valley market was 81.1%, and ADR was $186.61. The submarket should finish in 2024 at 78 % and about $224.

Prediction for 2025 – 79% at $228

La Jolla Coastal's occupancy rate was 75.9% in 2019, with an average rate of $257.12 that year. 2024 will finish at about 71% and about $333.

Prediction for 2025 - 71% at $335

The Northeast submarkets of Escondido, San Marcos, and Vista had 72.7% occupancy in 2019 at $122.05. They should finish this year at about 74% at $161.

Prediction for 2025 – 74% at $163

The Northwest submarkets from Del Mar to Oceanside ran 72.3% occupancy at $177.72 and should finish 2024 at around 72% at $223.

Prediction for 2025 – 72% at $225

The I-15 corridor had occupancy levels of 74.2% in 2019 at a rate of $144.93. In 2023, occupancy was 75.7% at $181.19. In 2024, they should finish at about 76% at $181.

Prediction for 2025 – 77% at $185

<u>Midway/Old Town/Airport/Point Loma</u>

Two mega projects are still processing: NAVWAR and Sports Arena. Navwar is located about two miles north of Downtown on Pacific Highway. A developer has been chosen (Manchester) with the promise of developing a new high-tech U.S. Navy building and at least 8,000 residential units. Details are unavailable, but this project will transform this area over the next decade. The old post office site across the street has seen furious construction of apartments; the first phases are now open.

Further north, the long-neglected Sports Arena and Midway areas should see pre-construction beginning in 2025 for a new sports arena, approximately 4,000 residential units, and some commercial. That is likely to catalyze many new projects in this market, including infrastructure improvement to accommodate it. Construction continues at the airport, with the $4 billion terminal development being well-involved. It's a solid anchor to this area and will inform growth and development in its proximity in the coming years. Top Golf is scheduled for construction on Harbor Island in the foreseeable future. The occupancy for this market was 76.9% at an average rate of $142.80 in 2019. In 2023, it was 73.6% at $182.84. For the year-end 2024, the market should finish at about 78% at $189.

Prediction for 2025 – 79% at $192

In Mission Bay, 2019 occupancy was 78.0% at $191.45, 2023 was 68.8% at $268.57, and this year should end at about 74% at $260.

Prediction for 2025 – 75% at $265

San Diego South and East

The long-awaited Gaylord Pacific Resort and Convention Center is slated for opening early next summer. This is the most impactful project, as its residual effect will be the development of adjacent commercial space on the old Rohr site and several announced projects nearby, including hotels and residential. It's the central part of an even larger footprint, which will ultimately include thousands of residential units to its north and prospective new "blue water" industries to its south. These ancillary projects will take form this decade but not next year.

Meanwhile, the other significant south county activity continues to be the build-out of the Otay Mesa corridor at and near the border, which alternatively lies within the Cities of San Diego and Chula Vista and the unincorporated areas. A big South Bay hangup is the never-ending, never-solved Imperial Beach/Tijuana sewerage plant inadequacy, which has closed the beach and impacted the quality of life of residents, businesses, and visitors to that town. Some new federal funding has been allocated, so 2025 may be the beginning of a resolution.

San Diego's east county remains relatively dormant. There are many proposals for new development and redevelopment (in El Cajon), but the general malaise in the real estate market has put proposals and transactions on hold. Next year may be the beginning of some recovery and activity. Santee struggles with what to do with its giant master plan, Fanita Ranch, which is in and out of the courts. The City wants to move forward, but significant opposition remains, which portends continued delays, probably through next year.

In 2019, occupancy levels in South and East Counties were 75.9%, and average rates were $102.25. In 2023, we saw 76.4% at $148.22. In 2024, we expect occupancy levels to finish at about 78%, at $153.

Prediction for 2025 – 78% at $158 (excludes the impact of Gaylord)