

1Q25

# San Diego Office Market Overview



NEWMARK



# Market Observations

## Economy

- The region’s unemployment rate was 4.4% as of February 2025, down 10 basis from February 2024. The metro added 9,900 jobs during this period, an increase of 0.6%.
- The consumer price index for all urban customers in the San Diego metropolitan area was up 3.8% year-over-year as of January 2025, down from the peak of 8.3% in annual increases experienced during 2022.
- In March 2025, the 12-month median sale price for a single-family home in San Diego County was \$1,050,000, an annual increase of 6.3%. Home sales have fallen from \$29.2 billion in annual sales in March 2022 to \$20.7 billion in annual sales in March 2025 as rising home prices and mortgage rates have taken their toll on residents looking to purchase a home. This favors the rental market.

## Major Transactions

- BioMed Realty purchased a five-building research campus from Pfizer in Torrey Pines for \$255.0 million.
- Breakthrough Properties purchased the three-building Muse life science project in Torrey Pines from Diversified Healthcare Trust for \$159.0 million.
- The NewSchool of Architecture & Design signed a new 45,000-SF lease in Downtown, where it has long operated.

## Leasing Market Fundamentals

- The average monthly asking rate increased to \$3.50/SF, up 3.8% over the past year and an all-time high, driven by rising availability in newer, more expensive properties.
- Net absorption was negative for the first quarter, logging 102,633 square feet in losses as leasing demand and activity remained low.
- Total vacancy climbed to 18.9%, an all-time high fueled by large deliveries and negative absorption.
- A record 1.8 MSF of new office space delivered during the first quarter, most of it vacant and located in Downtown.
- Sublease availability totaled 2.4 MSF, down from last year’s all-time high of 3.2 MSF. Though, this modest decline in sublease availability was more than offset by increasing direct availability.

## Outlook

- Vacancy will remain high as the market takes time to absorb the large amount of new space that has delivered amid low leasing activity.
- More foreclosure proceedings are likely at projects that were acquired at the height of the market and now face greatly reduced demand for office.
- Outdated and underperforming office buildings will continue to sell for conversion, particularly in Downtown where demand for apartments is much higher than for office.
- In March, the Federal Reserve had signaled its intention for two more interest cuts in 2025, but growing concerns over tariffs and inflation may affect its future decisions.

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# Economy

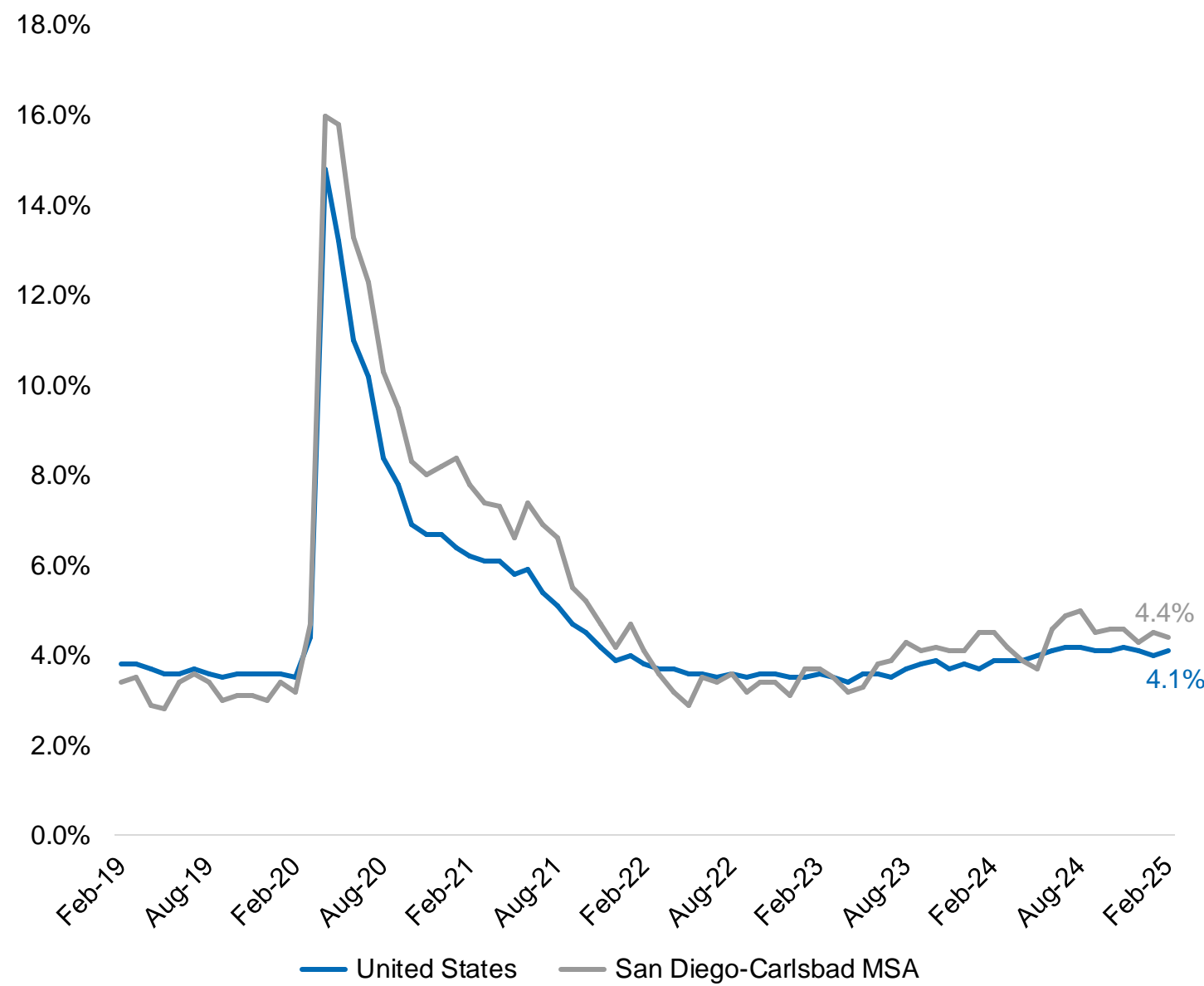




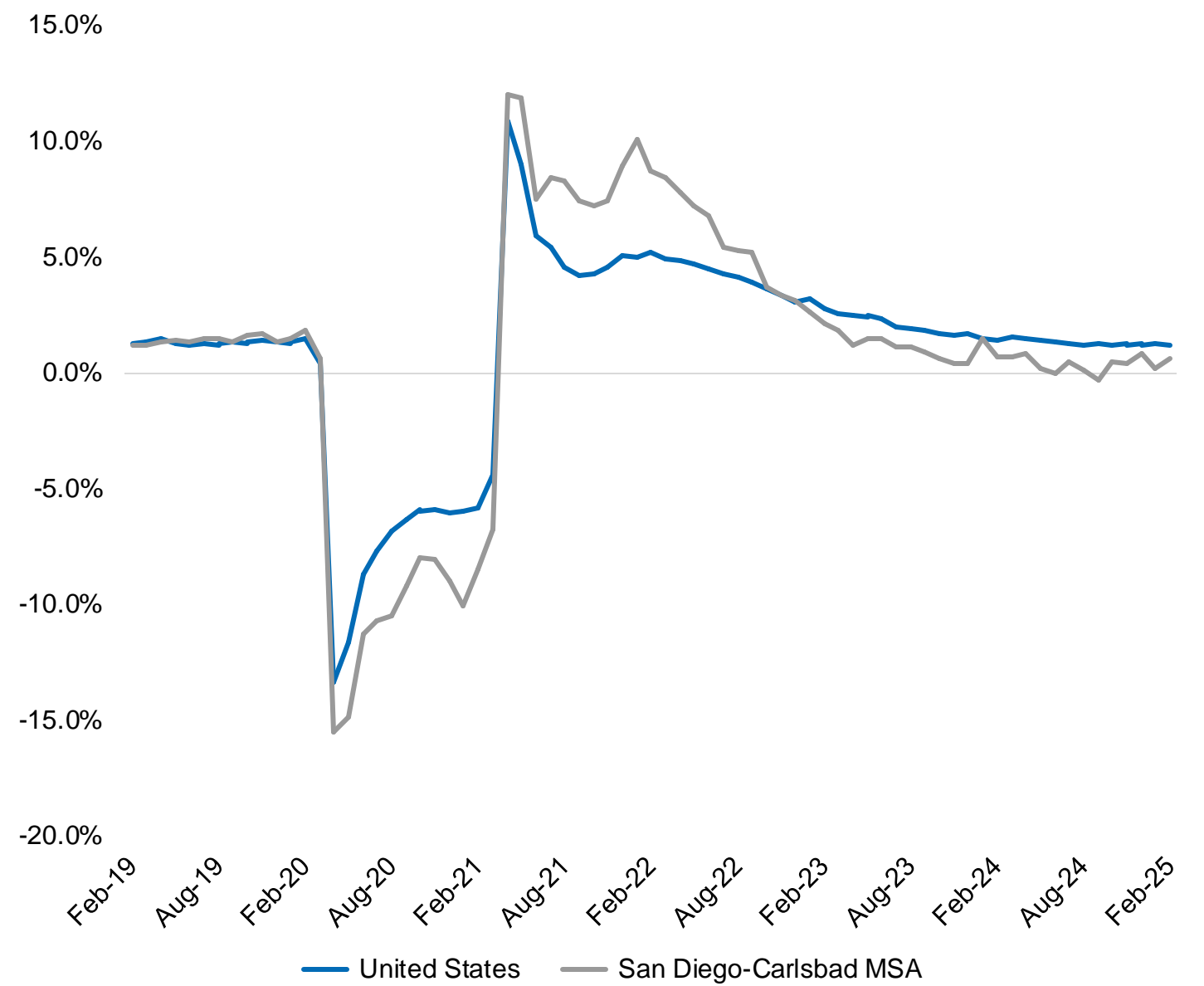
# Unemployment Little Changed From Last Year

The local unemployment rate was 4.4% in February 2025, down 10 basis points over the past year. During this time nonfarm employment has continued to post modest but positive gains: employers reported an additional 9,900 jobs over the past year, representing growth of 0.6%, which trailed the national average of 1.2%.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change

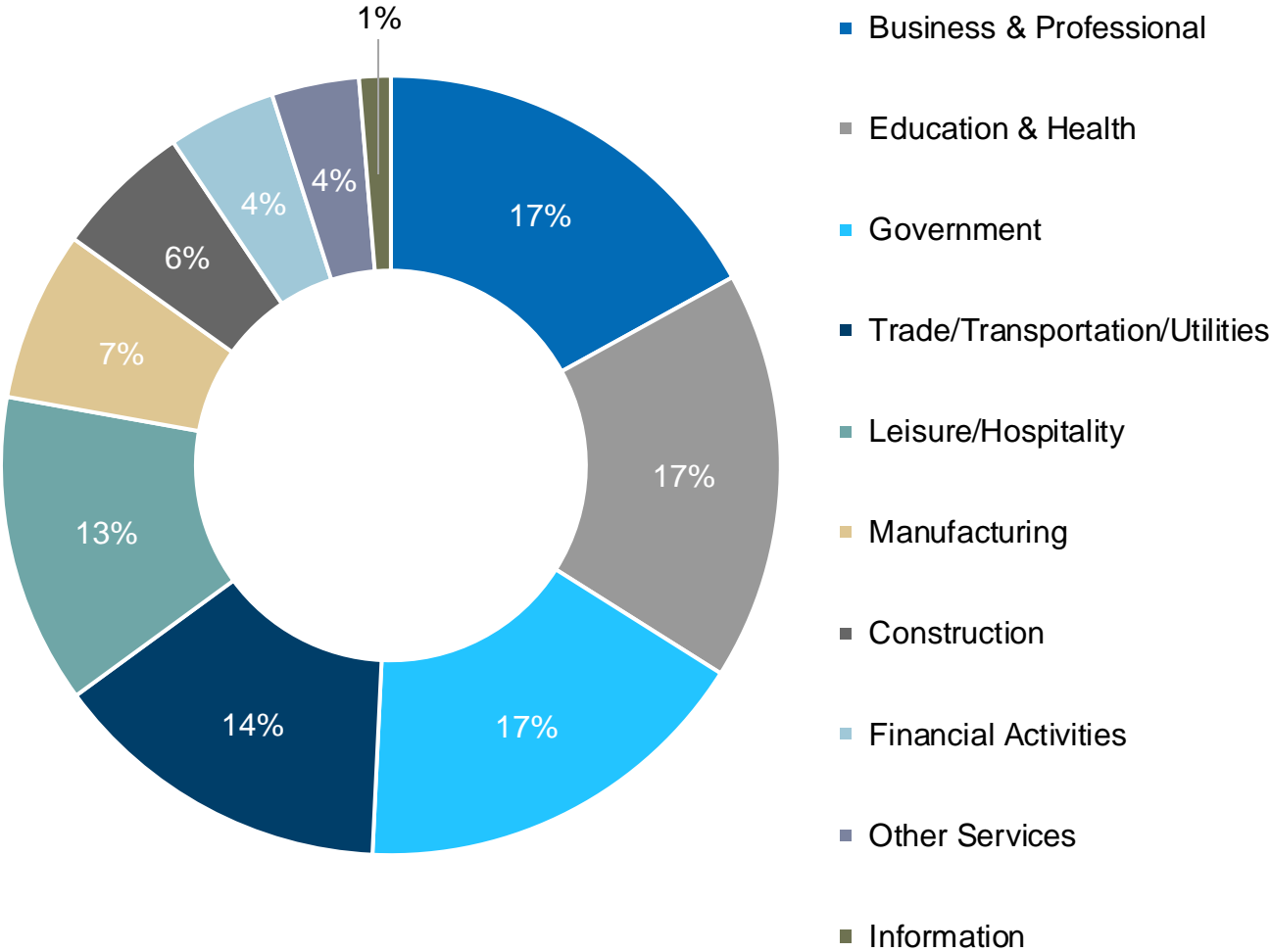


Source: U.S. Bureau of Labor Statistics, San Diego-Carlsbad MSA

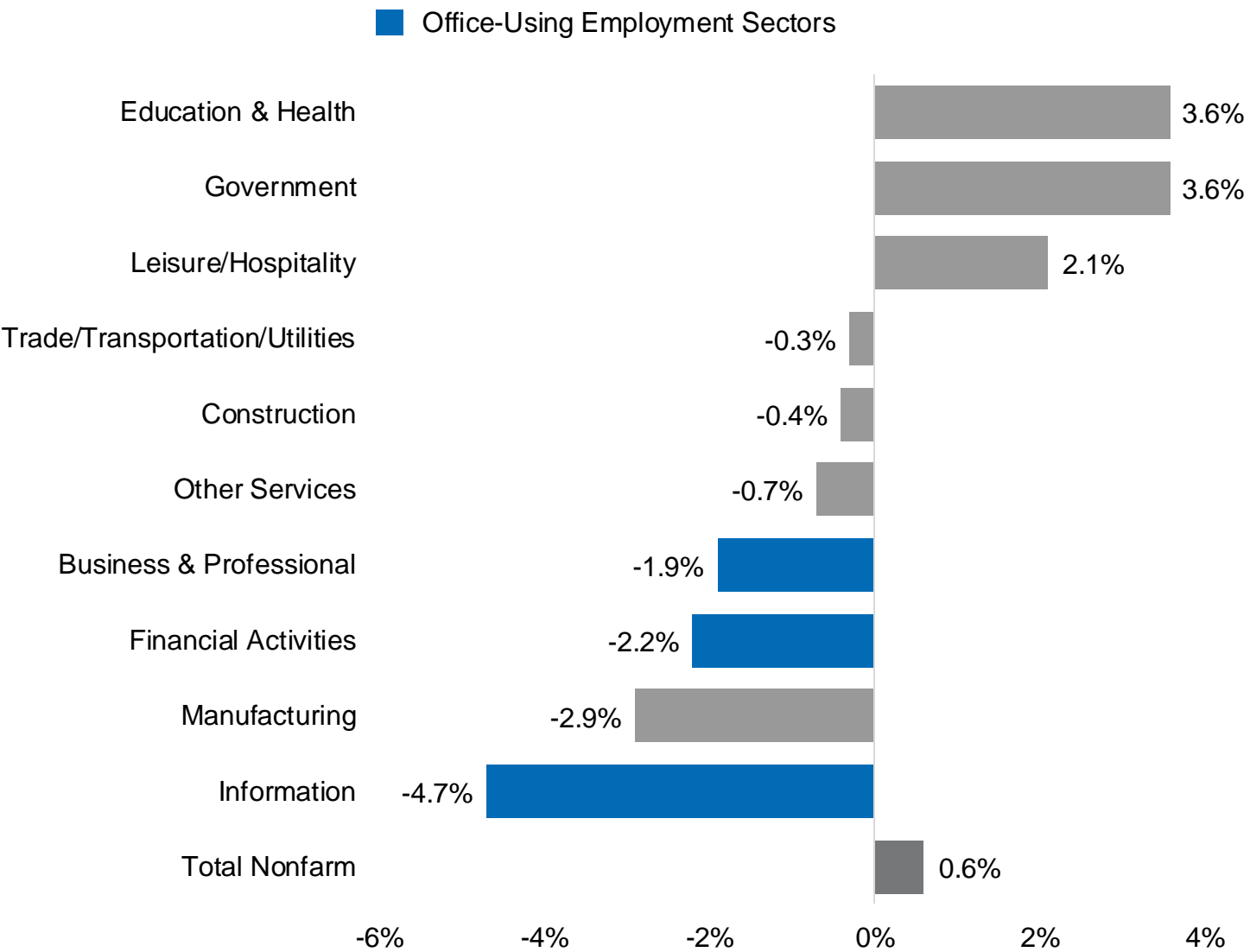
# All Office-Using Job Sectors Decline

Business and professional services has long been the largest employment sector in the region, fueling white-collar jobs and office demand. However, this sector has been shrinking for several years while the government and education and health sectors have been growing—both are now nearly as large in terms of numbers of jobs. Office-using jobs in the smaller financial activities and information sectors have been shrinking even faster.

Employment by Industry, February 2025



Employment Growth by Industry, 12-Month % Change, February 2025

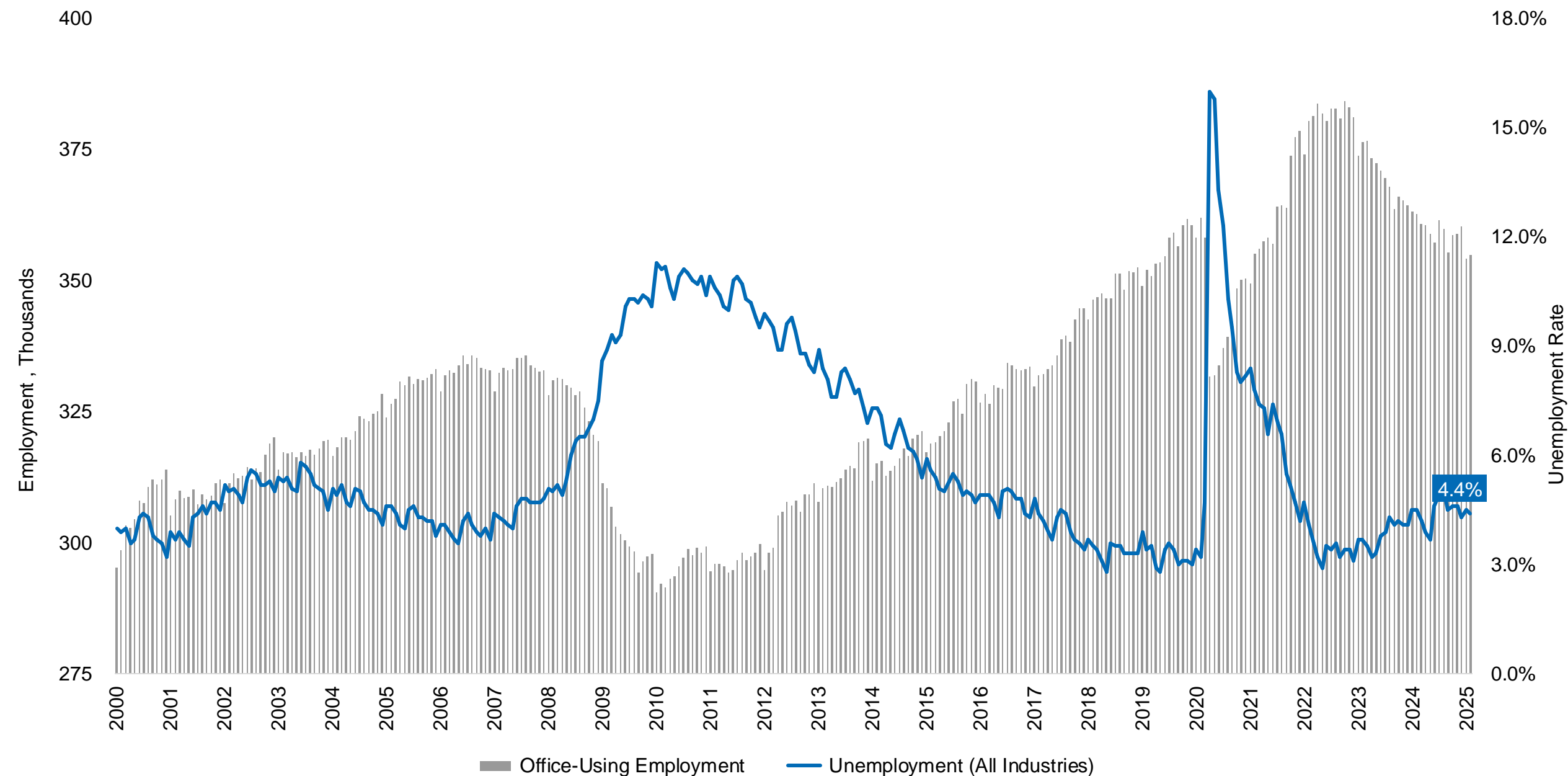


Source: U.S. Bureau of Labor Statistics, San Diego-Carlsbad MSA

# Office-Using Employment Has Steadily Declined Since the Peak in 2022

In 2022 San Diego reached a peak of office-using jobs, but employment in these sectors has since fallen even as the number of total jobs in the region has grown. The information sector shed 1,000 jobs over the past year, financial activities lost 1,600 jobs, and business and professional shed 5,100 jobs. By contrast, education and health had the best performance over the past year, adding 9,300 jobs, while government added 9,000 jobs.

Office-Using Employment\* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, San Diego-Carlsbad MSA  
Note: February 2025 data is preliminary.  
\*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.



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# Leasing Market Fundamentals

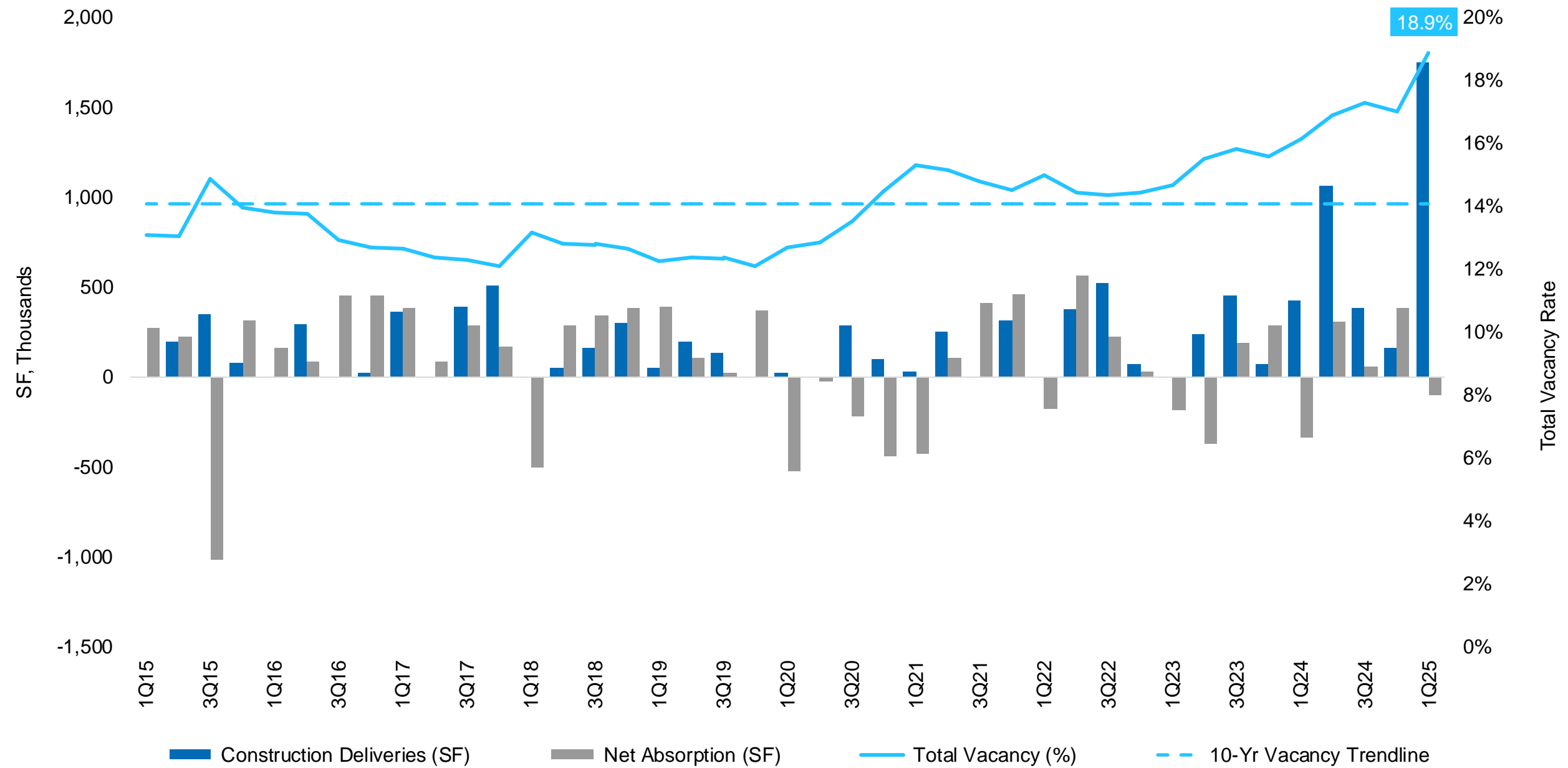




# Vacancy Climbs With Large Deliveries

The first quarter saw 1.7 MSF of construction deliveries, the largest quarterly total on record. This mostly vacant new inventory, combined with 102,633 SF of negative net absorption, caused total vacancy to climb to 18.9%, also an all-time high. The bulk of these new deliveries were due to IQHQ's RaDD development, which delivered 1.0 MSF of new office space Downtown, followed by two new life science projects that completed in Sorrento Mesa, totaling 434 KSF.

Historical Construction Deliveries, Net Absorption and Vacancy

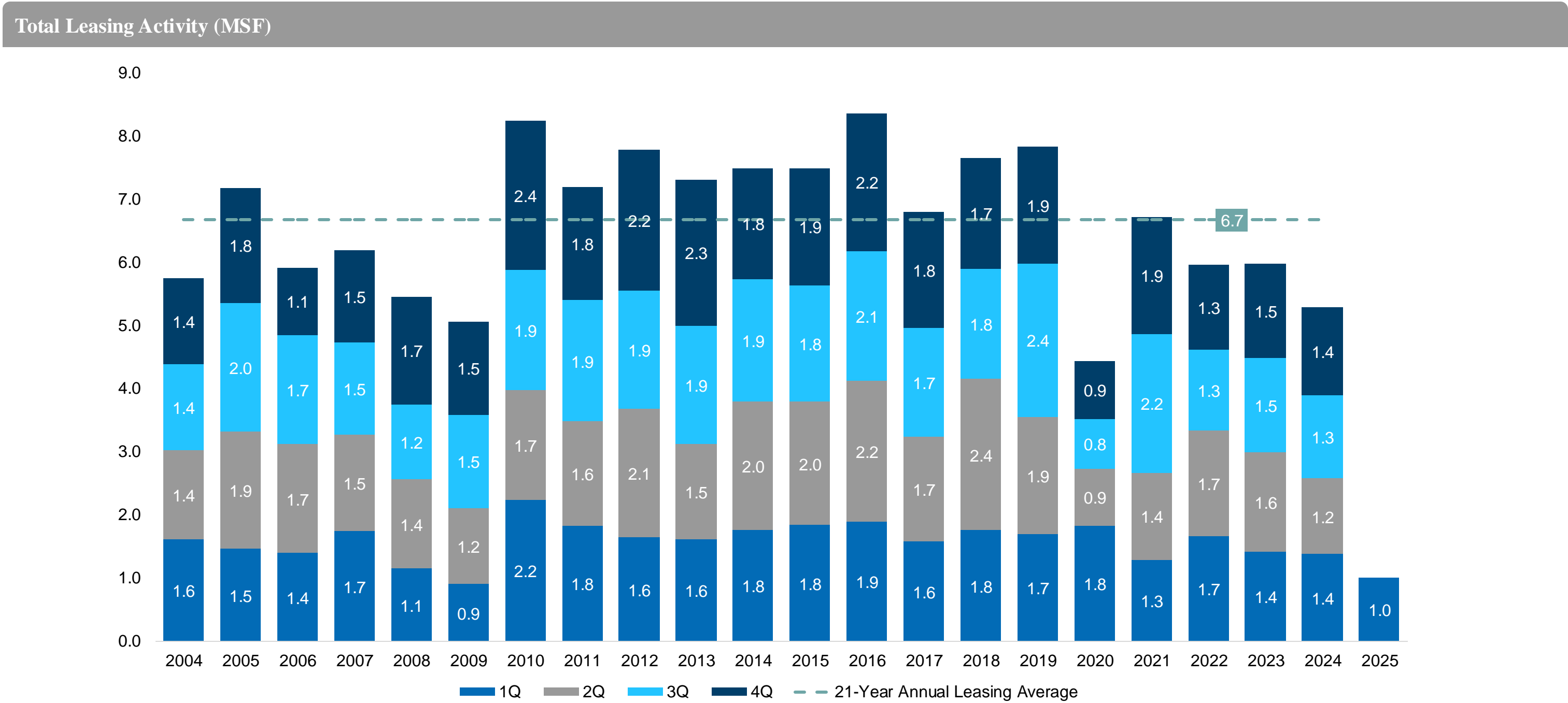


Source: Newmark Research



# Leasing Remains Low in the First Quarter

Leasing activity has lagged the historical annual average of 6.7 MSF every year since 2019 and has steadily decreased every year since 2021. The first quarter of 2025 saw only 1.0 MSF of leasing activity, the lowest first quarter on record since 2009 during the Global Financial Crisis.



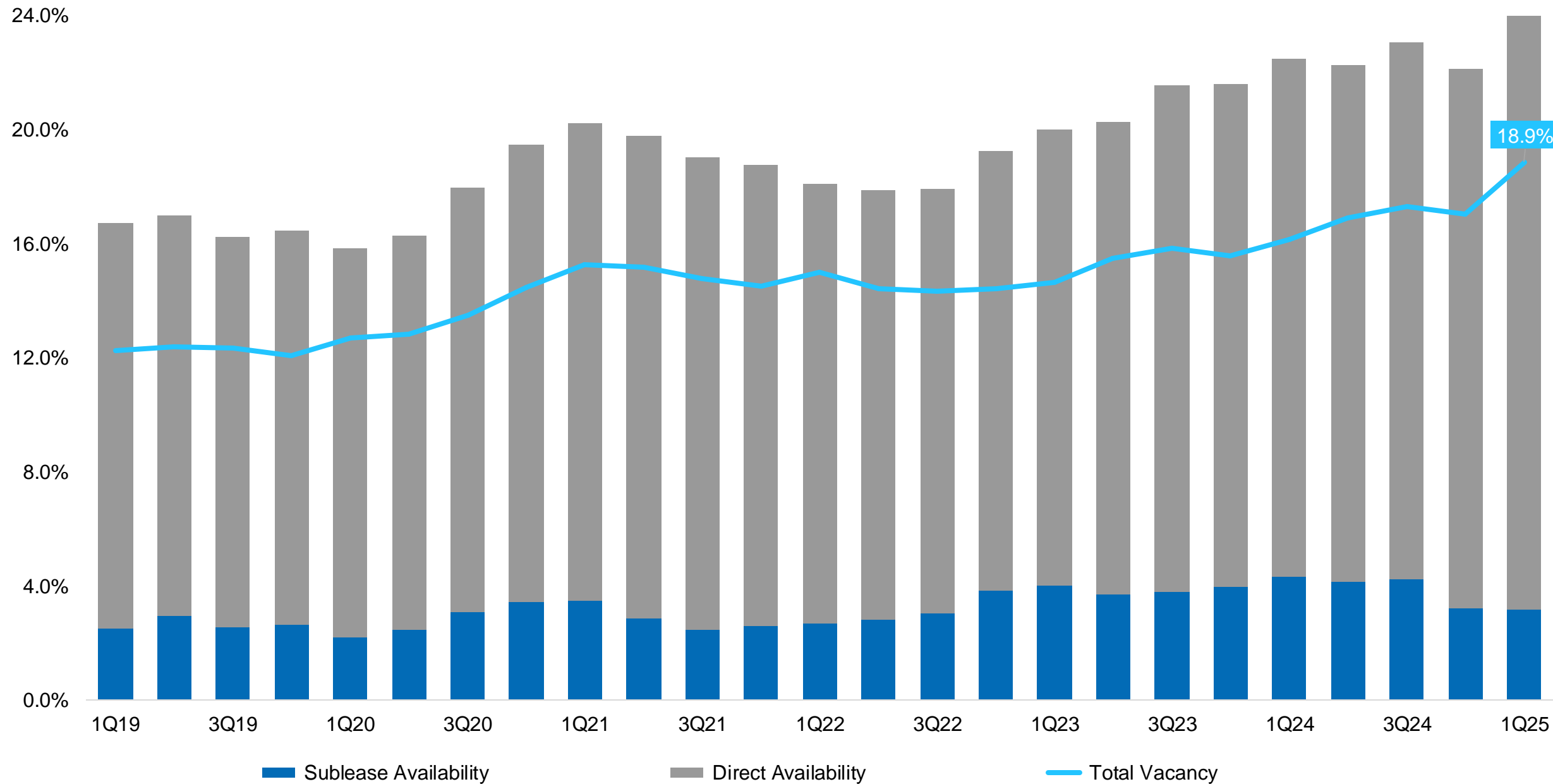
Source: Newmark Research, CoStar



# Vacancy and Availability Remain Elevated

Vacancy climbed from 14.7% two years ago to 18.9% this quarter as supply has consistently outstripped demand for new space. Sublease availability has dipped since the highs of last year, although this decline was more than offset by an increase in direct availability as sublease offerings were withdrawn and landlords took these spaces to market direct.

Available Space and Total Vacancy as Percent of Overall Market

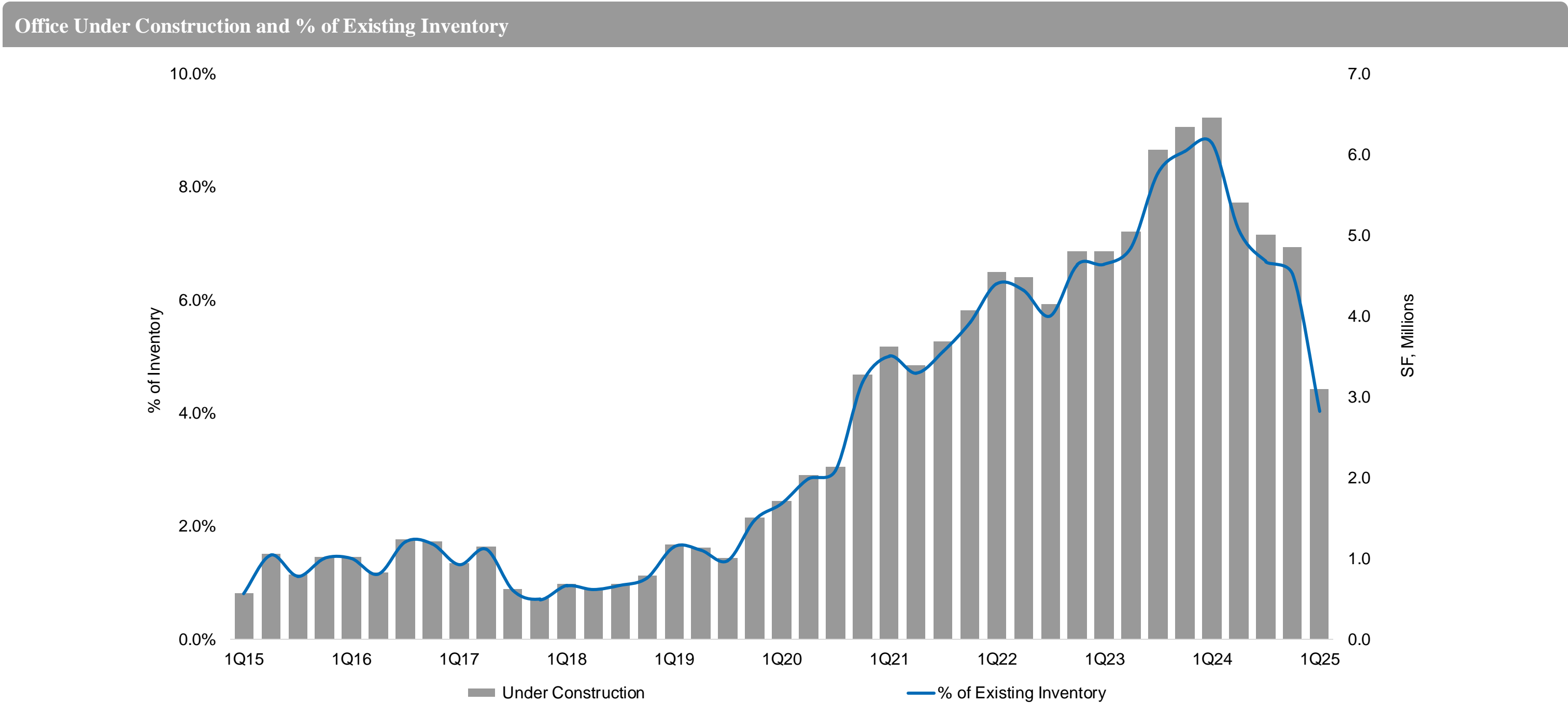


Source: Newmark Research



# Construction Continues Decline from Record High

Office construction boomed during the recovery and is quickly tapering off as market conditions soften. There are 5.1 MSF in projects under construction, down from the all-time high of 6.5 MSF set in the first quarter of 2024. Despite massive deliveries in the first quarter, Downtown still has the most construction activity, due to the Campus at Horton Plaza, a troubled 745,000-SF creative-office conversion where the lender has initiated foreclosure proceedings.

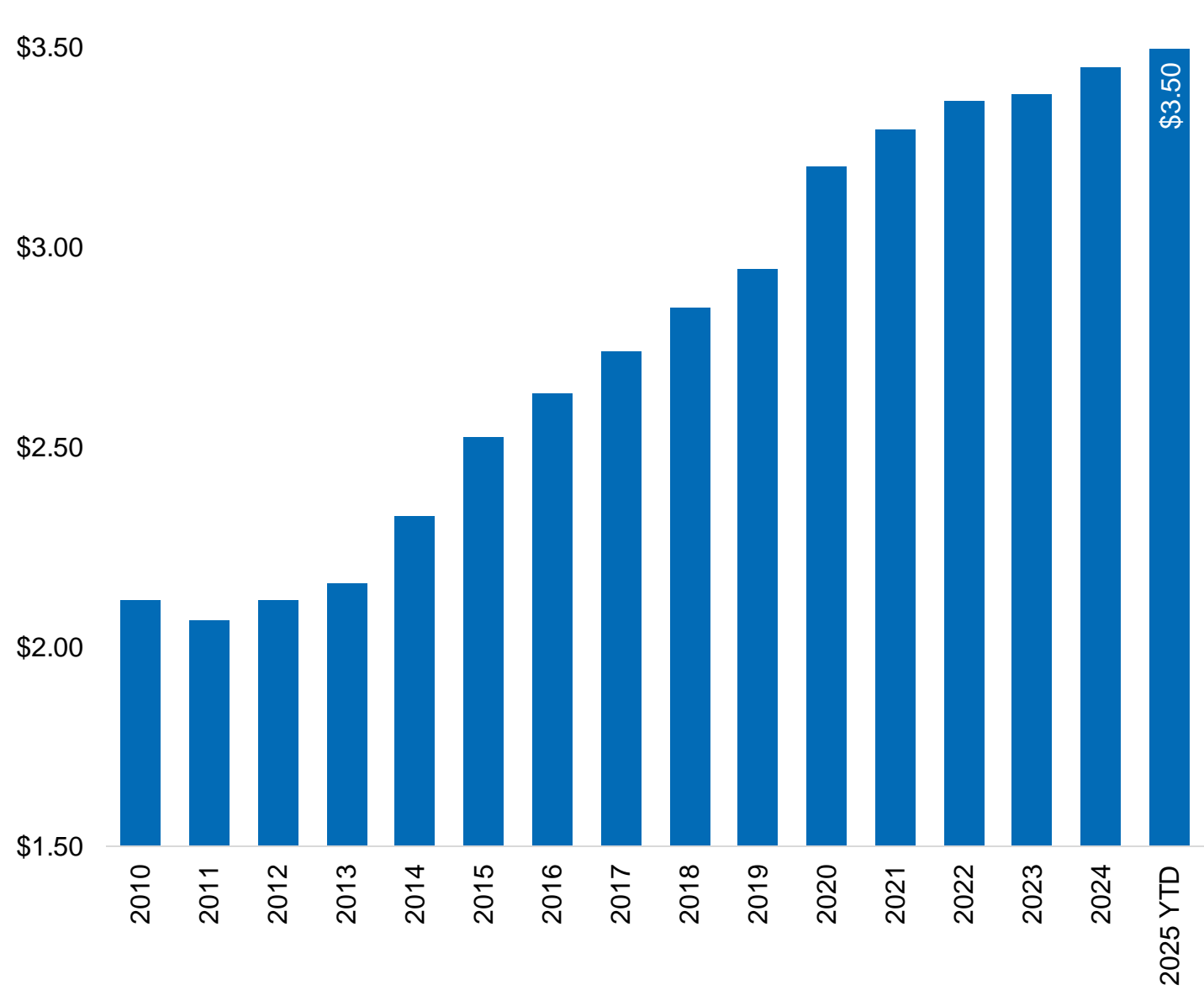


Source: Newmark Research, CoStar

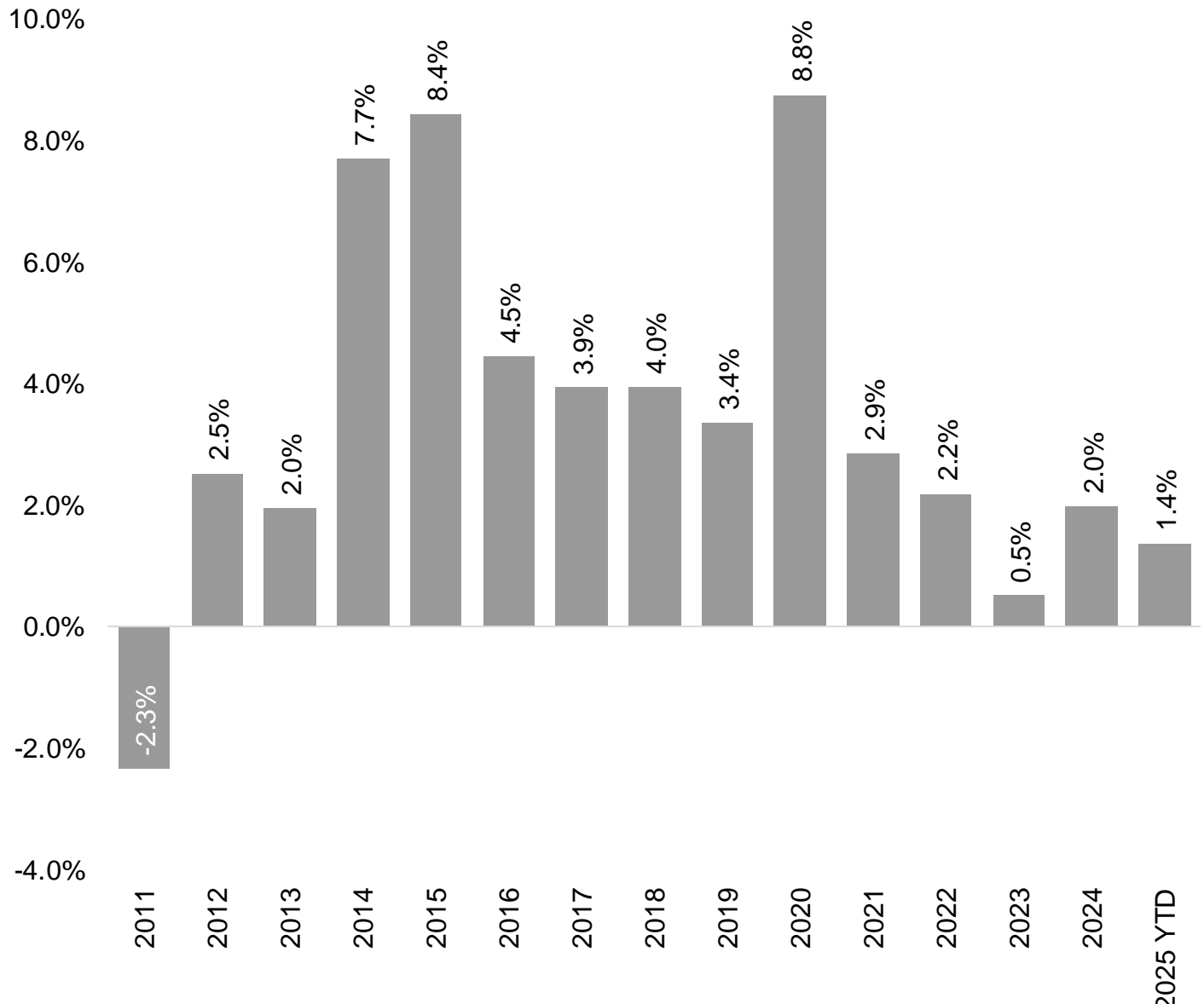
# Rent Growth Driven by High Availability of Newer Spaces

Despite climbing vacancy rates, the average asking rate climbed to an all-time high \$3.50/SF, an annual increase of 1.4% fueled by expensive newly delivered space hitting the market. Although modest rent growth has continued over the past four years, these increases have lagged the rate of inflation every year since 2021.

Office Average Asking Rent, \$/SF/Month, FS



Year-over-Year Asking Rent Growth Rate



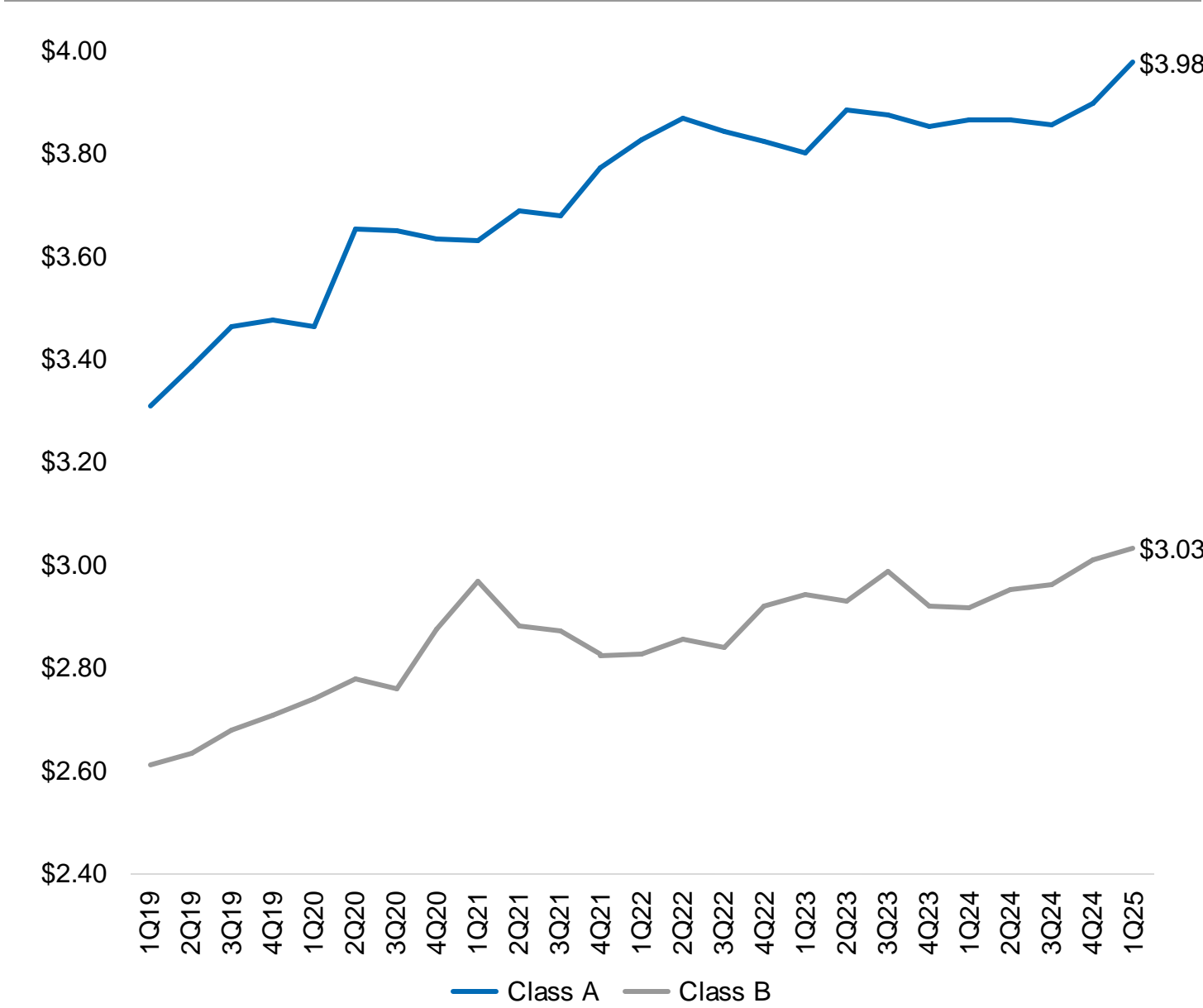
Source: Newmark Research, CoStar



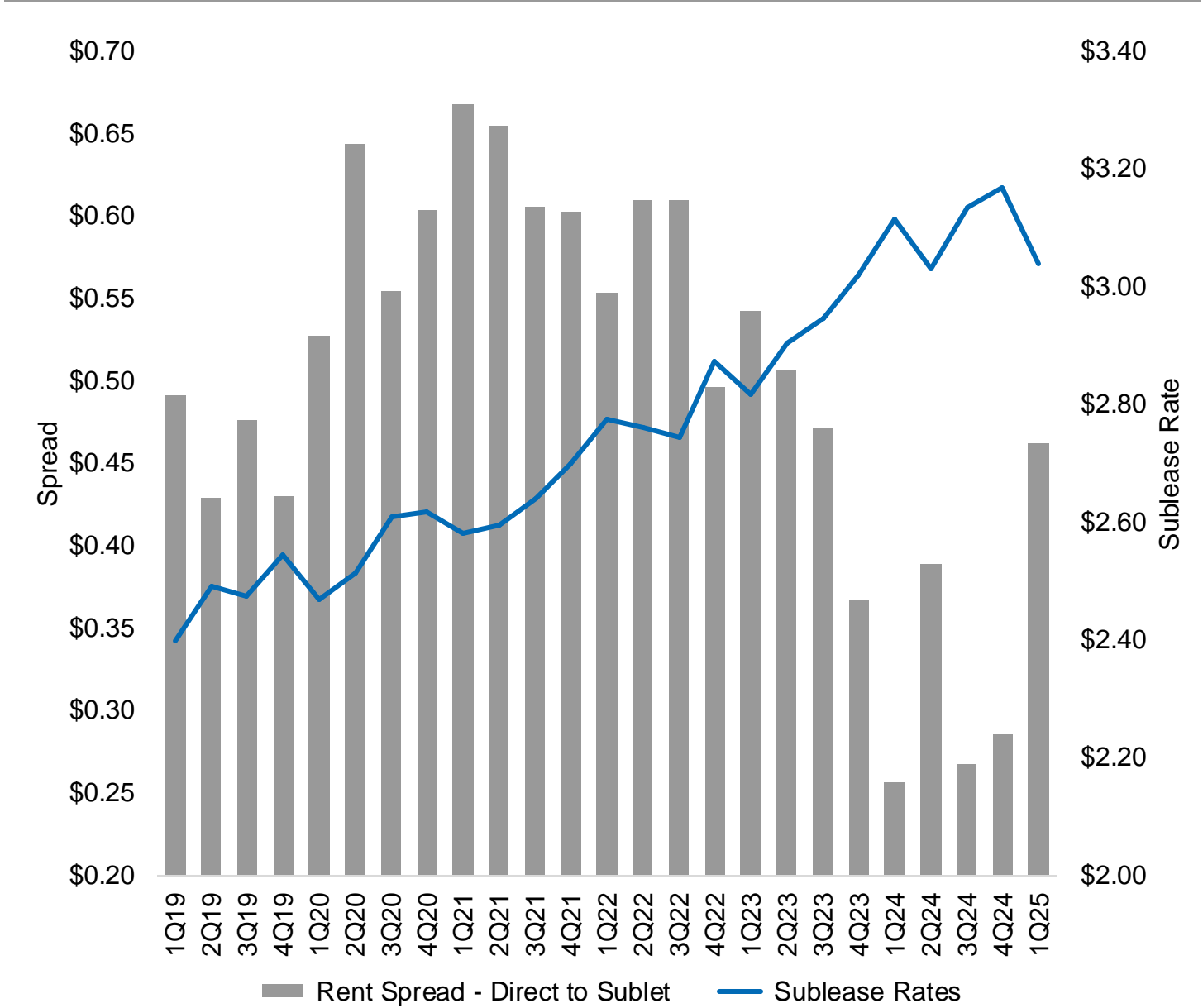
# Class A and B Rents Maintain Spread

Class A and Class B rents have started to diverge with the delivery of new high-end space after tracking one another closely for several years. Sublease rates fluctuated widely from 2023-2024 as large blocks of modern space have periodically hit the market. The spread between sublease and direct rates has now stabilized more in-line with historical averages, and sublease space currently represents a \$0.46/SF discount to direct space on average.

Class A and Class B Asking Rents, \$/SF/Month, FS



Sublease Asking Rates



Source: Newmark Research, CoStar

# Notable Lease Transactions

The largest lease of the quarter was the NewSchool of Architecture and Design, a long-time occupier Downtown that signed a new lease at 600 B St. Other notable lease transactions were relatively small by historical standards as leasing activity has slowed.

Notable 1Q25 Lease Transactions				
Tenant	Building(s)	Submarket	Type	Square Feet
NewSchool of Architecture and Design	600 B St	Downtown	New Lease	44,544
For-profit college offering undergraduate and graduate programs leased new space in Downtown.				
Kura Oncology	4930 Directors Pl	Sorrento Mesa	New Lease	32,512
Publicly traded, clinical-stage biopharmaceutical company leased a full floor at Directors Science Park.				
Ohana California	4183 Avenida De La Plata	Oceanside	New Lease	23,690
Educational placement and occupational therapy organization leased classroom space in Oceanside.				
Considine & Considine	8989 Rio San Diego Dr	Mission Valley	Renewal	20,088
Certified public accountant renewed space in Mission Valley.				
Event Network	9645 Granite Ridge Dr	Kearny Mesa	New Lease	18,928
Operator of retail gift shops leased new office space in Kearny Mesa.				

Source: Newmark Research



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## Most Large Spaces are in Newer Construction

A low-angle, upward-looking photograph of a modern building's interior or exterior structure. The image shows a complex network of steel beams and girders forming a grid-like pattern. Large glass panels are visible, reflecting light and showing the sky. The perspective creates a sense of height and architectural scale. A solid blue horizontal band is overlaid across the middle of the image, containing white text.

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# Submarkets





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## San Diego Submarket Map and High-Level Statistics | 1Q25

A low-angle, upward-looking shot of a modern building's interior or exterior structure. The image features a complex network of intersecting steel beams and glass panels, creating a geometric pattern. The lighting is bright, suggesting a sunny day, and the overall color palette is dominated by light blues and greys. A solid blue horizontal band is superimposed over the middle of the image, containing white text.

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## Vacancy Highest in Downtown, Asking Rents Highest in Del Mar Heights



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## Sublease Availability by Submarket



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# Downtown Has the Most Construction, Portending More Vacancy to Come

A low-angle, upward-looking shot of a modern building's steel framework. The image shows a complex network of intersecting steel beams and girders, creating a geometric pattern. The sky is visible through the openings in the structure, appearing bright and slightly hazy. The overall color palette is dominated by the metallic grays of the steel and the light blues of the sky.

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## Downtown Also Has a Large Pipeline of Ground-Up Multifamily Projects

A low-angle, upward-looking photograph of a modern building's steel framework. The image shows a complex network of intersecting steel beams and girders, creating a geometric pattern. The sky is visible through the openings in the structure, appearing bright and slightly hazy. The overall color palette is dominated by the metallic grays of the steel and the light blues of the sky.

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# Capital Markets & Life Science





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## Office Volume Boosted by Large Life Science Deals

A low-angle, upward-looking shot of a modern building's interior or exterior structure. The image features a complex network of intersecting steel beams and glass panels, creating a geometric pattern. The perspective is from below, looking up towards the sky, which is visible through the glass. The overall color palette is dominated by light blues and greys, giving it a clean, architectural feel.

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## Office Accounted For Roughly a Fourth of Total Sales Volume

A low-angle, upward-looking shot of a modern building's interior or exterior structure. The image features a complex network of intersecting steel beams and glass panels, creating a geometric pattern. The perspective is from below, looking up towards the sky, which is visible through the glass. The overall color palette is dominated by light blues and greys, giving it a clean, architectural feel.

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# Institutional Buyers Account for the Bulk of Diminished Investments



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# Price Per Square Foot Has Fallen as Cap Rates Have Recovered



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# Life Science Funding Dips in the First Quarter



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# Life Science Mergers and Acquisitions Off to a Slow Start



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