2Q25

San Diego Office Market Overview

NEWMARK

Market Observations

Economy

- The region's unemployment rate was 4.0% in May 2025, up 40 basis points over the past year. The region has added 16,200 jobs over the past year, although the number of office-using jobs fell by 4,500.
- The consumer price index for all urban customers in the San Diego metropolitan area was up 3.8% over the past year, down from the record 8.1% annual increase experienced in the first half of 2022.
- In June 2025, the rolling 12-month median sale price for a single-family home in San Diego County was $1,050,000, an all-time high and a 3.1% year-over-year increase.
- The troubled Campus at Horton creative office redevelopment was turned over to a court-appointed receiver after the lender-initiated foreclosure proceedings.

Leasing Market Fundamentals

- The average monthly asking rate fell slightly from last quarter's all-time high to $3.48/SF. The current rate is 1.8% lower than 12 months ago.
- Quarterly net absorption was essentially flat, posting a modest gain of 20,819 SF. Leasing activity remained slow, with a total of 1.1 MSF for the quarter.
- Total vacancy climbed to 19.8% as large deliveries introduced a large amount of new vacant space to the market.
- 1.2 MSF of new office space delivered this quarter, coming right on the heels of the first quarter's record-setting 1.7 MSF of new deliveries. The pipeline has contracted significantly, with only 1.5 MSF of under-construction space remaining.
- Sublease availability totaled 2.5 MSF, in line with the 5-year average and representing 3.2% of existing inventory.

Major Transactions

- Medical device company Orthofix Medical signed a lease for an 81,711-SF building in Carlsbad from Diversified Healthcare Trust.
- Menlo Equities purchased the two-building, 116,440-SF Executive Center Del Mar project from PGIM for $48.5 million.
- The nonprofit Prebys Foundation acquired the 521,500-SF Wells Fargo Plaza in Downtown from The Irvine Company for $40.0 million, the fourth underperforming Downtown high-rise The Irvine Company sold in the past year.

Outlook

- Vacancy should stabilize now that most of the speculative pipeline has been delivered and construction levels have retreated from record highs.
- The continued realignment of the workforce will pose challenges to the office market, as traditional office-using employment sectors decline and the government, education and health sectors grow.
- Life science was a boon to the central submarkets over the past seven years, upcycling older and obsolete projects and driving up asking rents for surrounding office, but as the biotech industry has slowed this tailwind has all but vanished.

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2. Leasing Market Fundamentals
3. Submarkets
4. Capital Markets & Life Science

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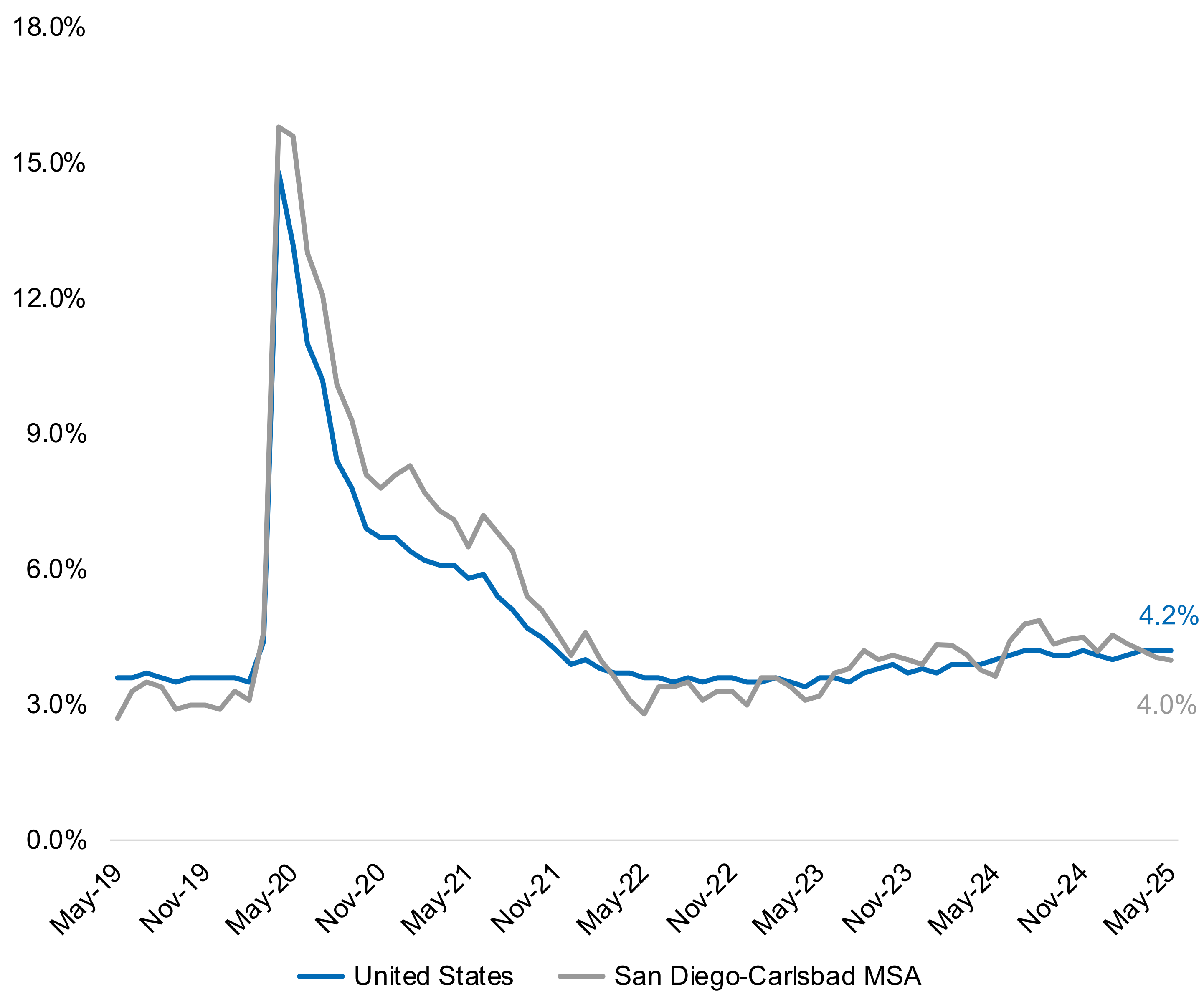
Economy

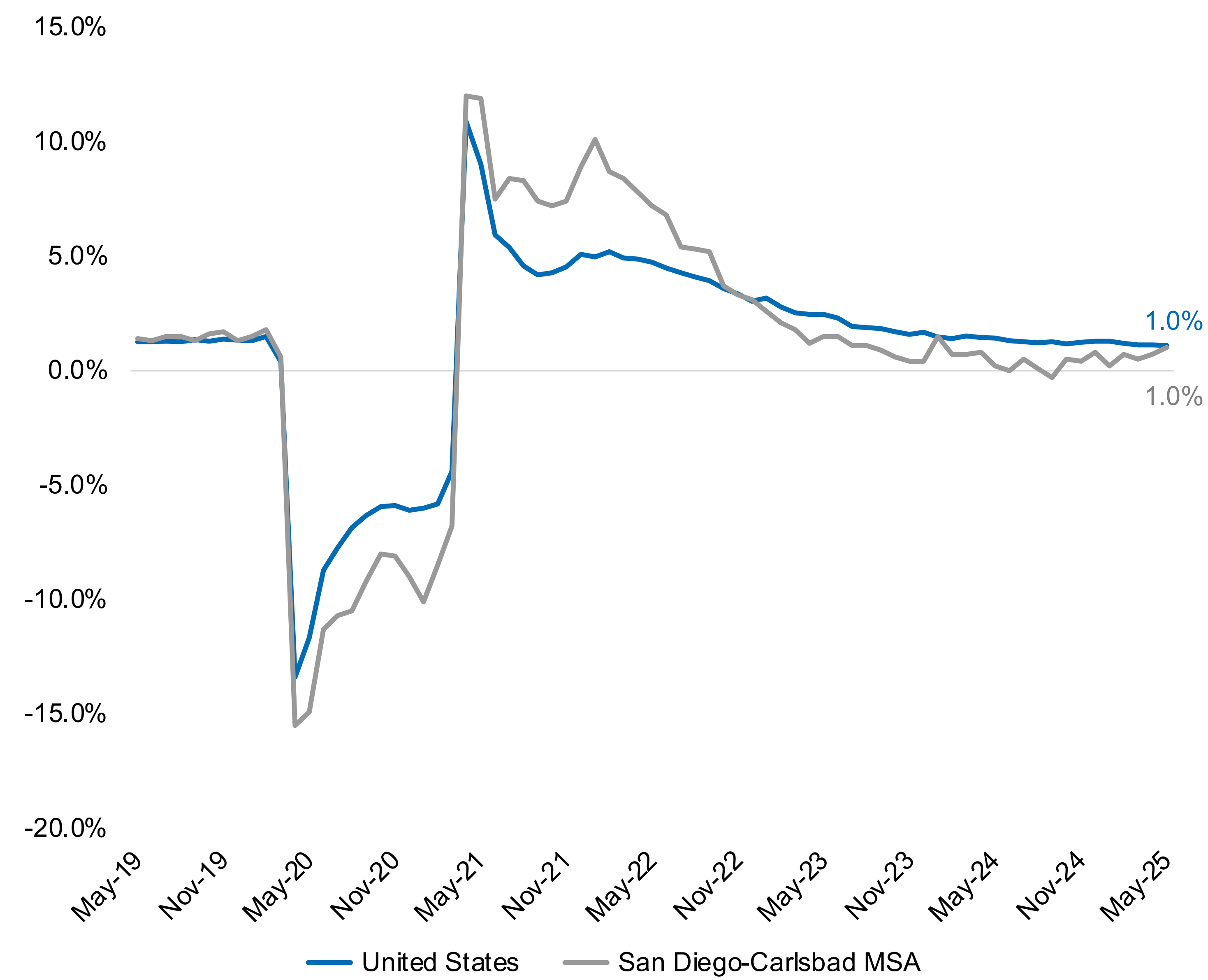
Unemployment Remains Low as Job Growth Slows

The local unemployment rate was 4.0% in May 2025, up 40 basis points over the past year. During this time nonfarm employment continued to post modest but positive gains: employers reported an additional 16,200 jobs over the past year, representing growth of 1.0%, which matched the national average after trailing it for several years.

Unemployment Rate, Seasonally Adjusted



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

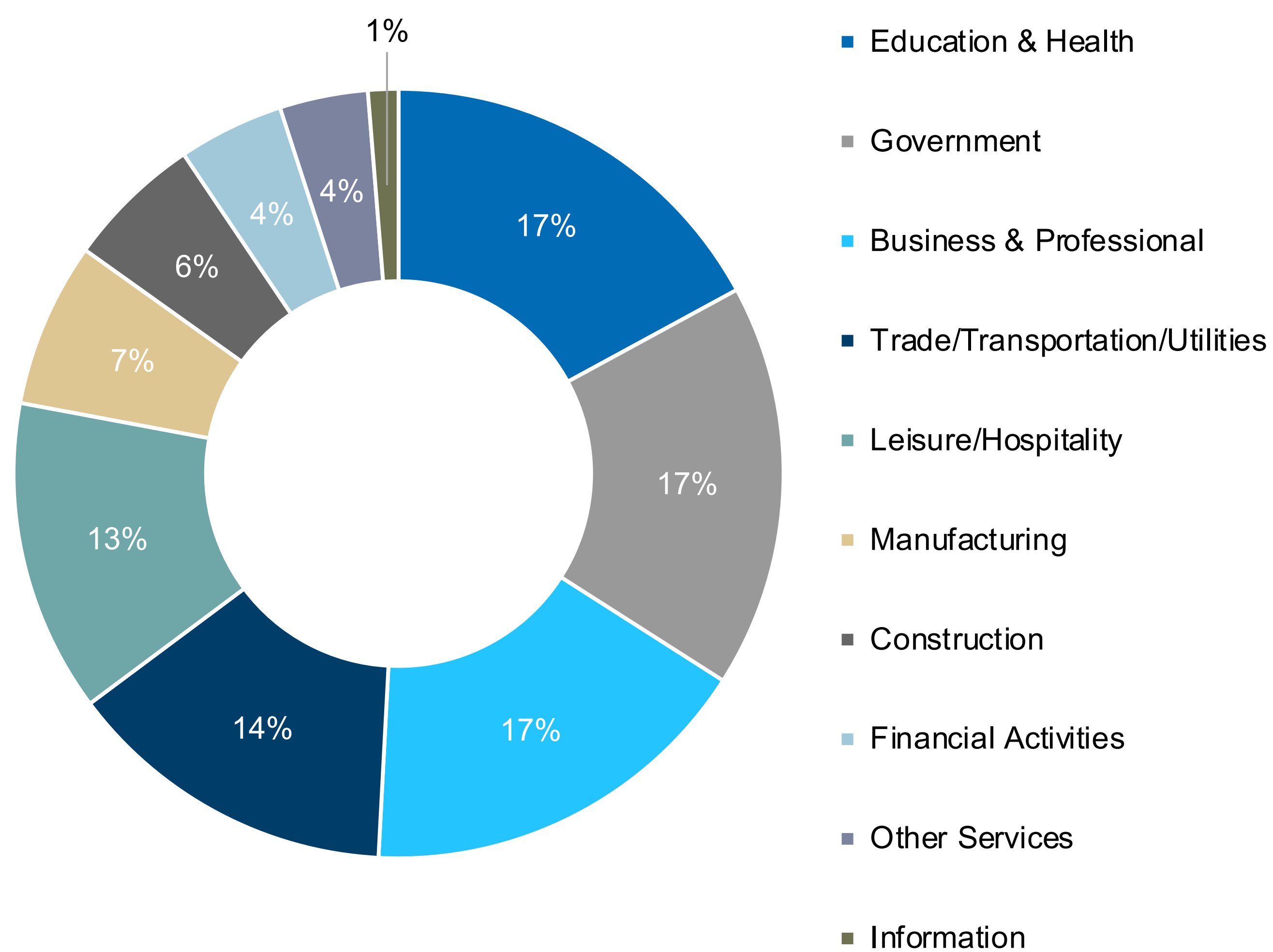


Source: U.S. Bureau of Labor Statistics, San Diego-Carlsbad MSA

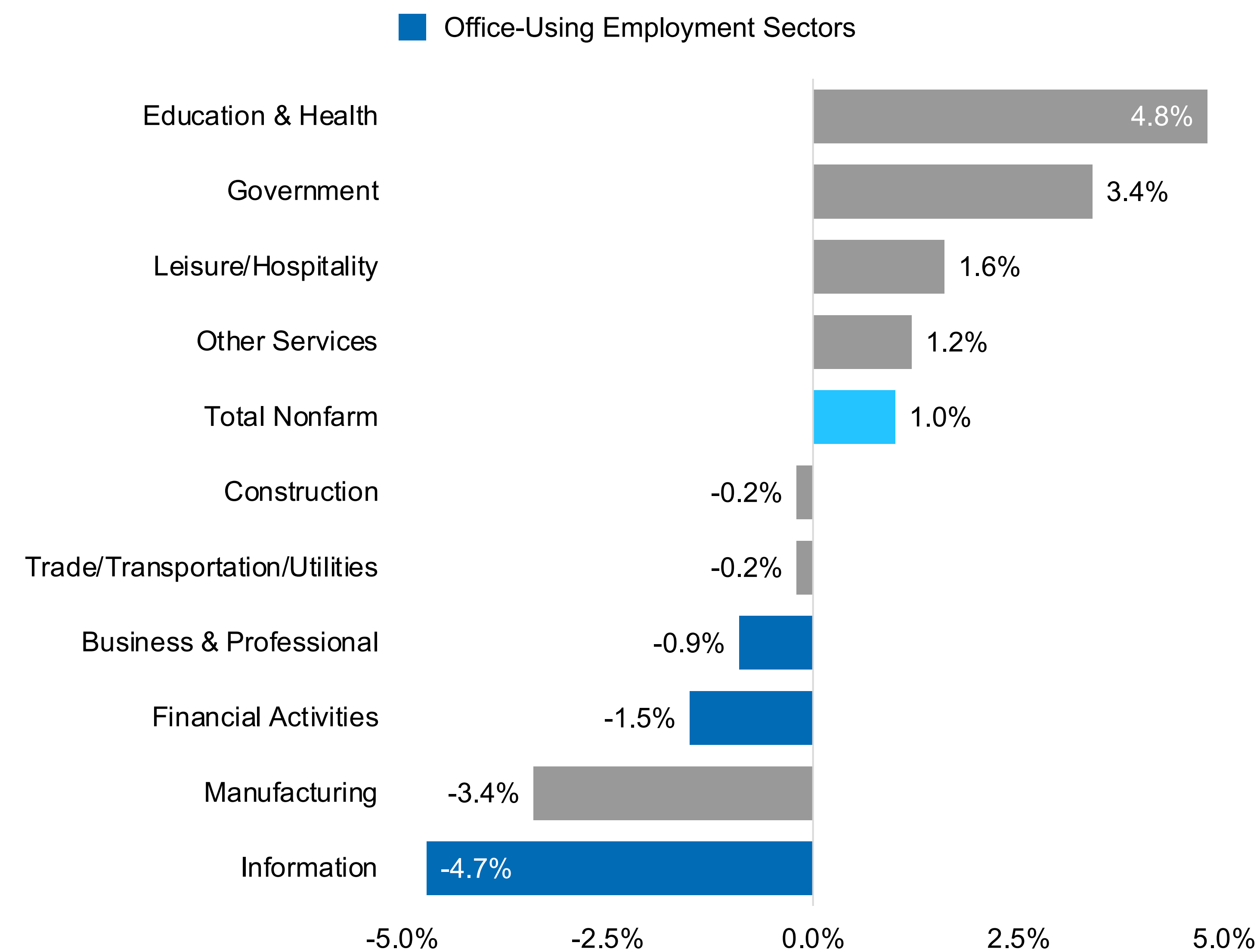
Business & Professional is No Longer the Largest Employment Sector

For the past five years business and professional services was the largest employment sector in the region, fueling white-collar jobs and office demand. However, this sector has been shrinking since 2022, while the government and education and health sectors grew rapidly — as of April 2025 both sectors have slightly surpassed business and professional in terms of total jobs. Office-using jobs in the smaller financial activities and information sectors have been shrinking even faster.

Employment by Industry, May 2025



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

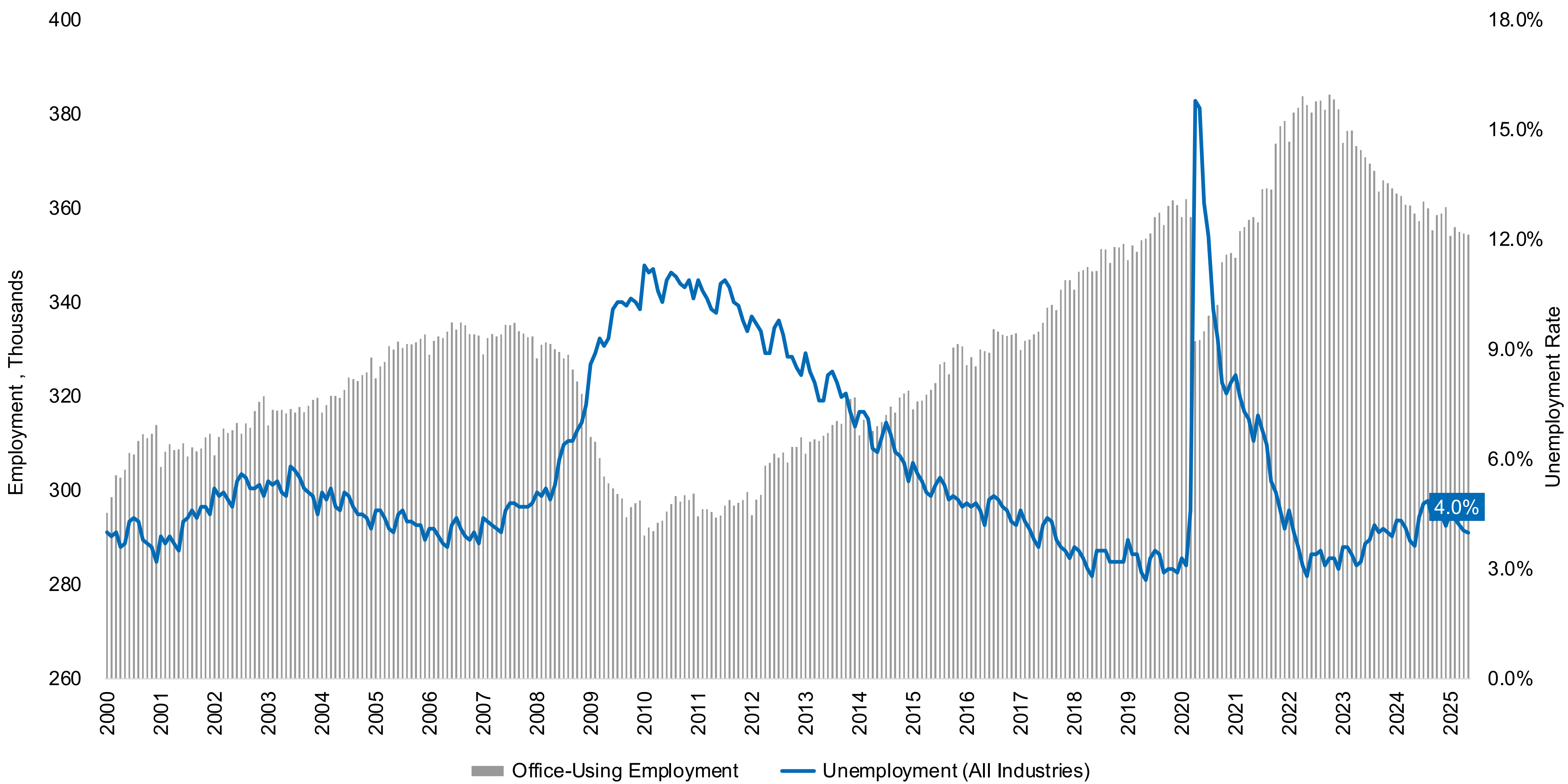


Source: U.S. Bureau of Labor Statistics, San Diego-Carlsbad MSA

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

In 2022 San Diego reached its 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 1,100 jobs, and business and professional shed 2,400 jobs. By contrast, education and health had the best performance over the past year, adding 12,400 jobs, while government added 8,800 jobs.

Office-Using Employment* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, San Diego-Carlsbad MSA
Note: May 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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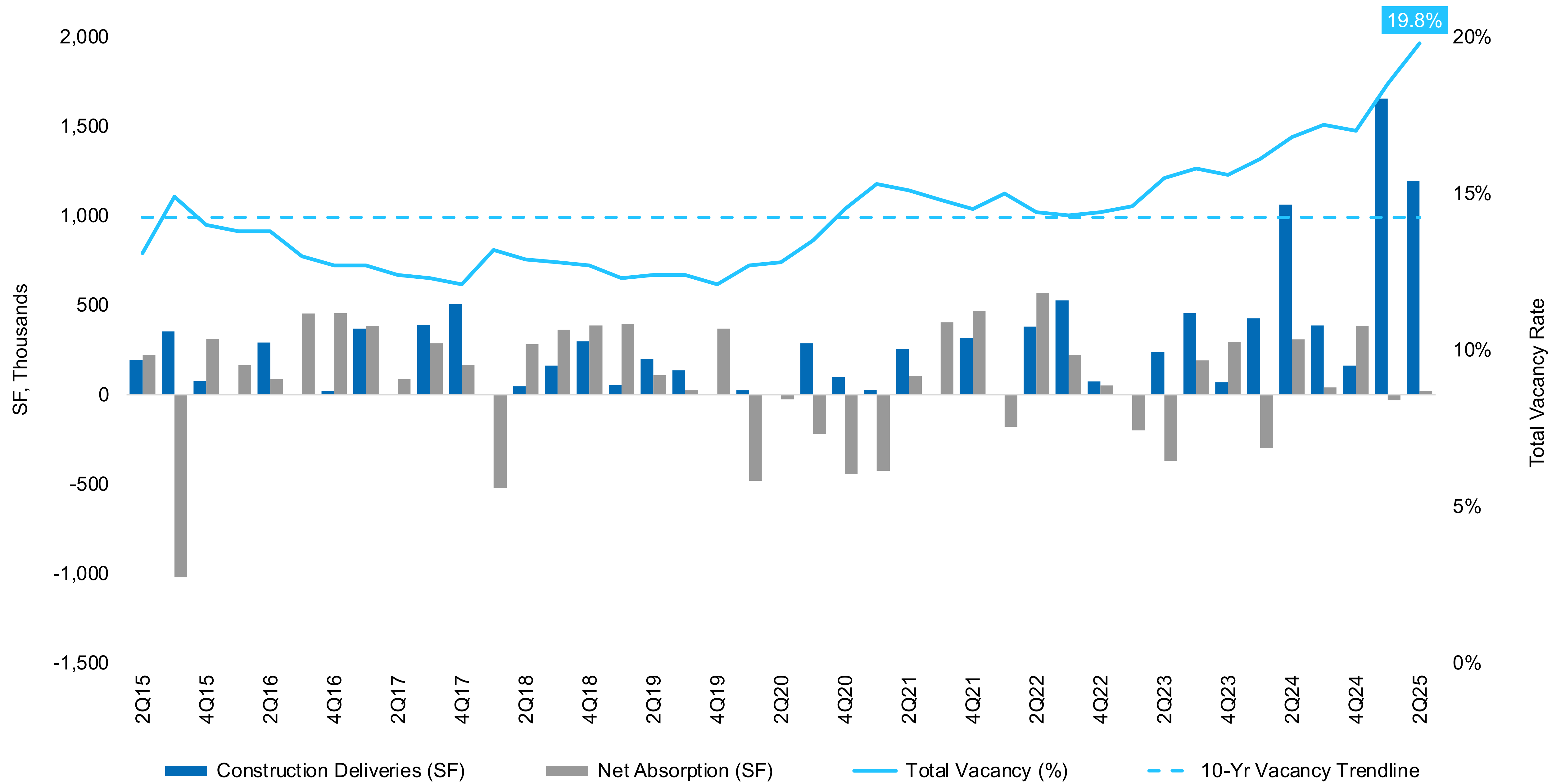
Leasing Market Fundamentals

Vacancy Climbs With Large Deliveries

The first half of 2025 saw 2.9 MSF in construction deliveries, breaking the previous largest annual total on record. This mostly unleased inventory caused total vacancy to climb to 19.8%, also an all-time high, despite modest positive absorption. Most new deliveries consist of of large life science developments in the Downtown and Sorrento Mesa submarkets.

Historical Construction Deliveries, Net Absorption and Vacancy

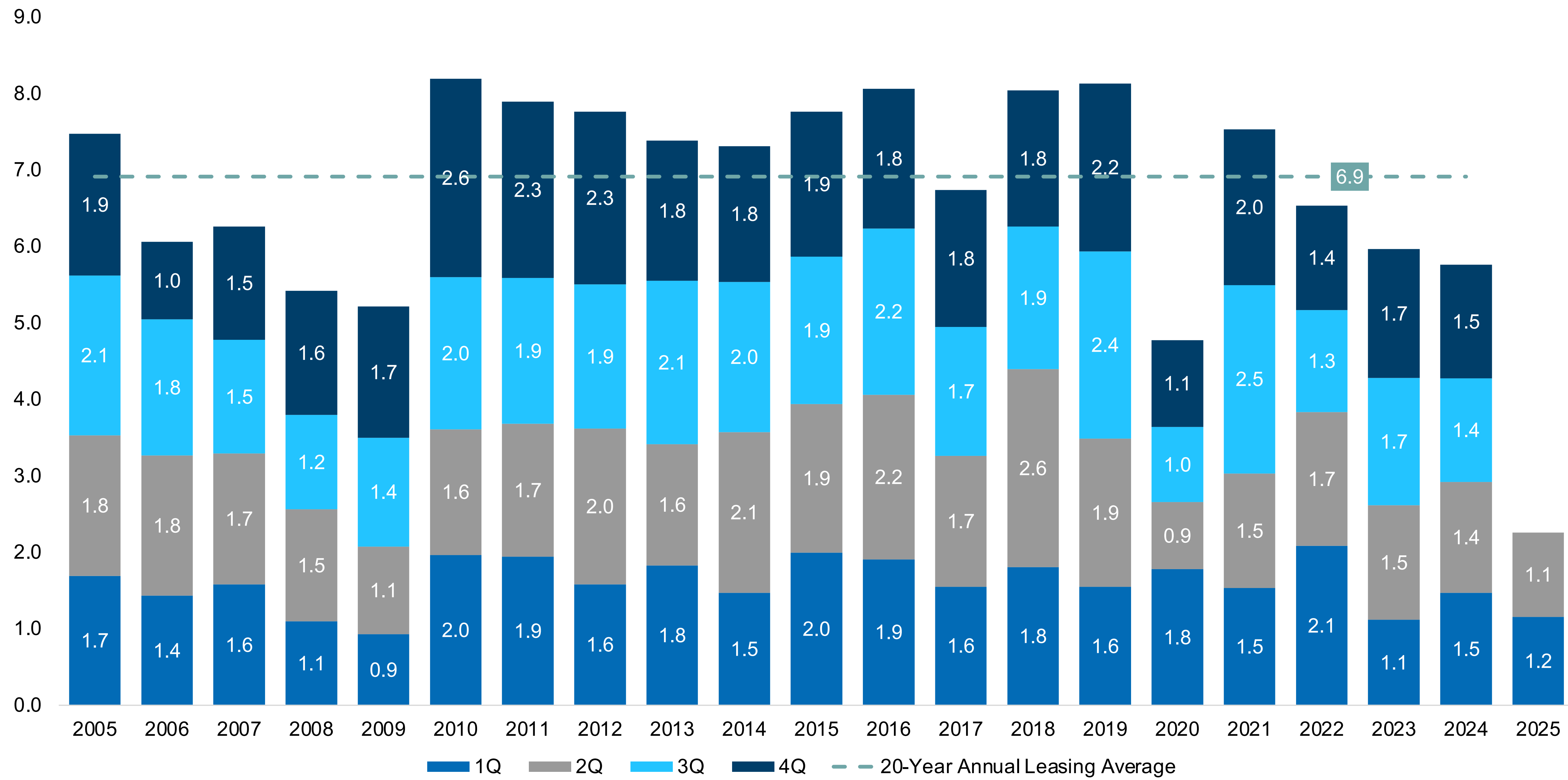


Source: Newmark Research

Leasing Remains Low in the First Quarter

Leasing activity has lagged the historical annual average of 6.9 MSF every year since 2019 and has steadily decreased since 2021. The first half of 2025 saw only 2.3 MSF of leasing activity, the second lowest first half on record. Only 2009, during the Global Financial Crisis, saw lower leasing activity in the first half of the year.

Total Leasing Activity (MSF)

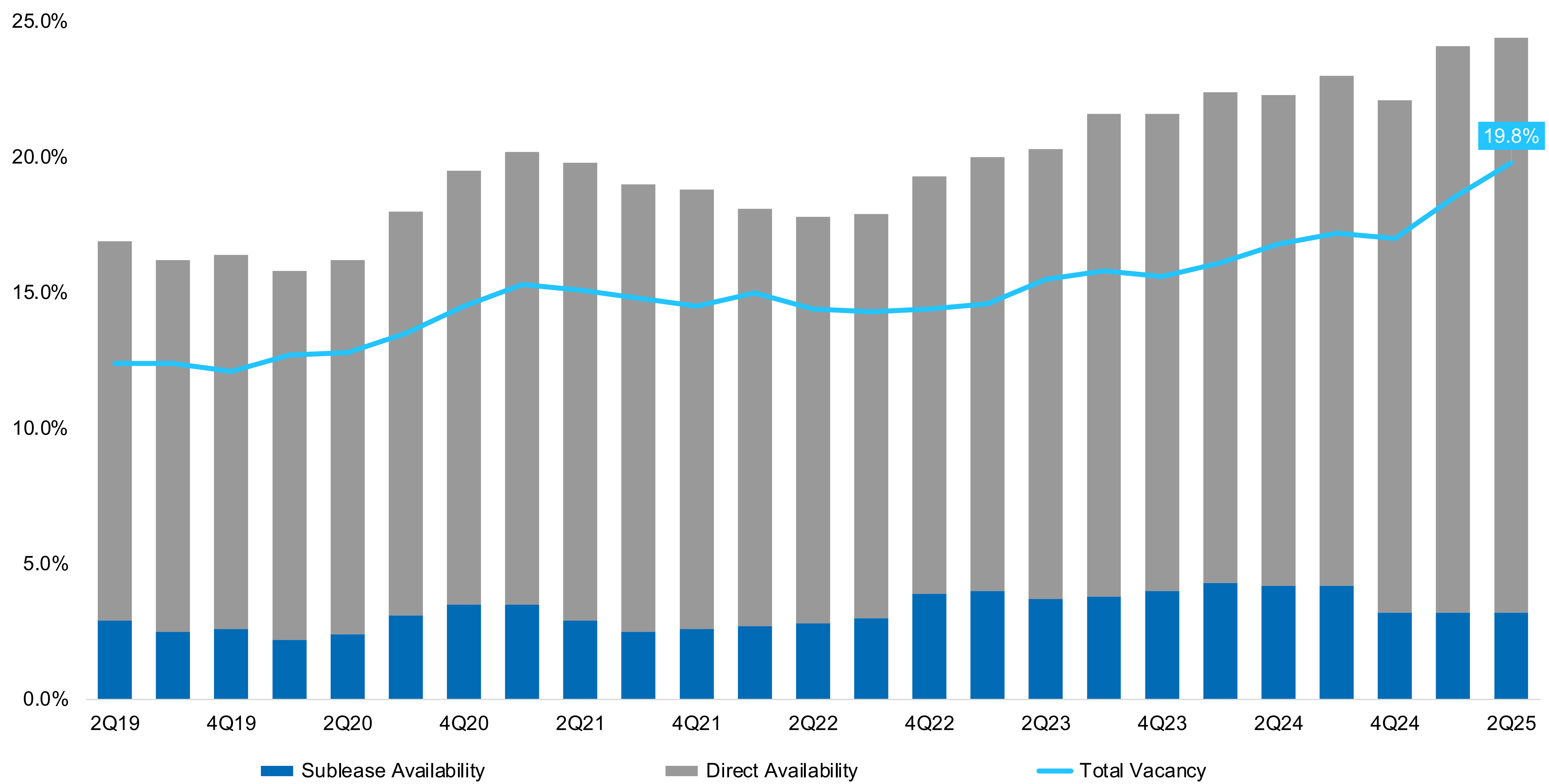


Source: Newmark Research, CoStar

Vacancy and Availability Remain Elevated

Vacancy climbed from 15.5% two years ago to 19.8% 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, and deliveries of new vacant buildings.

Available Space and Total Vacancy as Percent of Overall Market

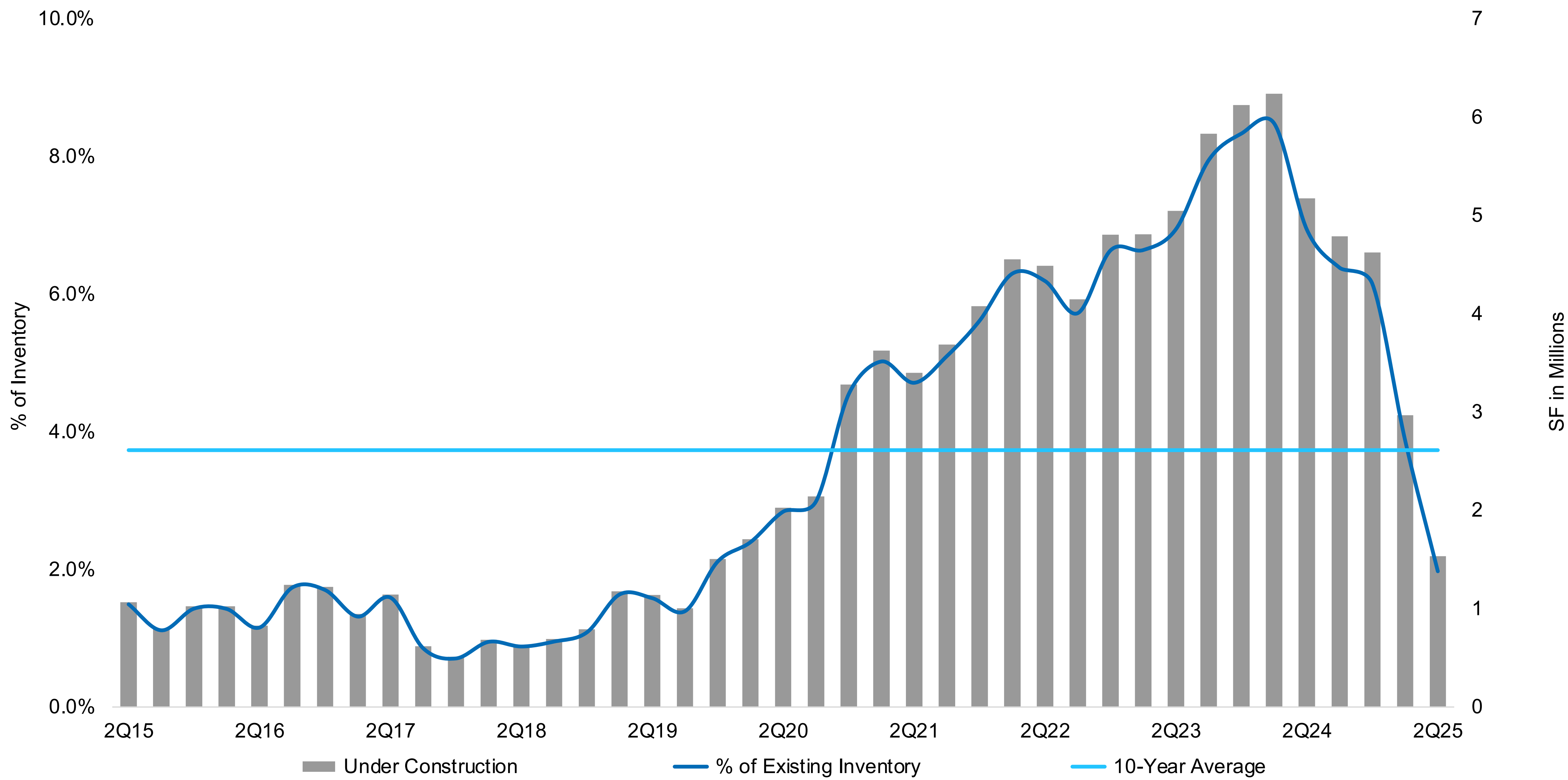


Source: Newmark Research

Construction Levels Continue to Retreat from Record High

Office construction boomed during the recovery and is now quickly tapering off as market conditions soften. There are 1.5 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 in the metro, due to the Campus at Horton, a troubled 745,000-SF creative-office conversion where the lender has initiated foreclosure proceedings.

Office Under Construction and % of Existing Inventory

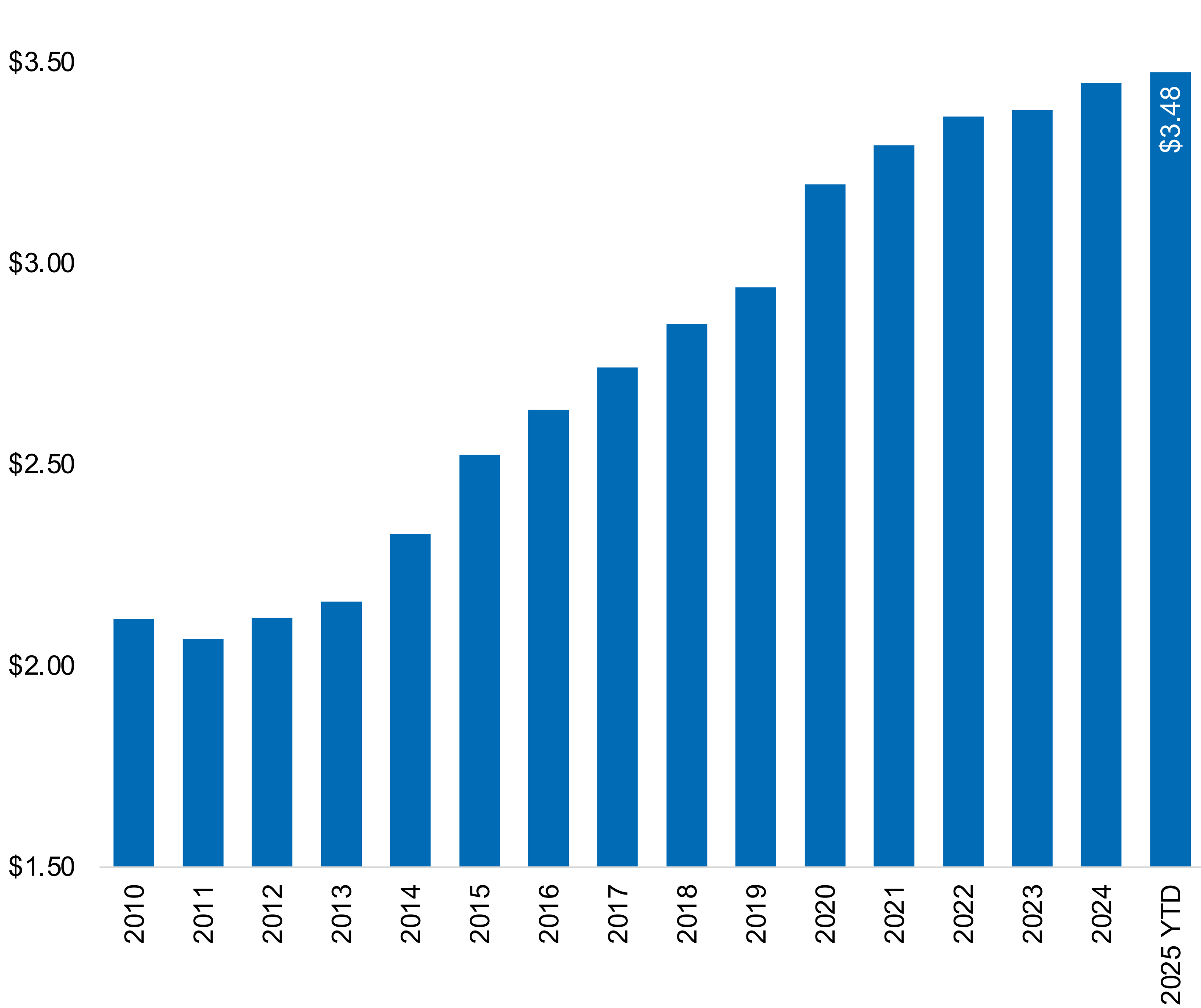


Source: Newmark Research, CoStar

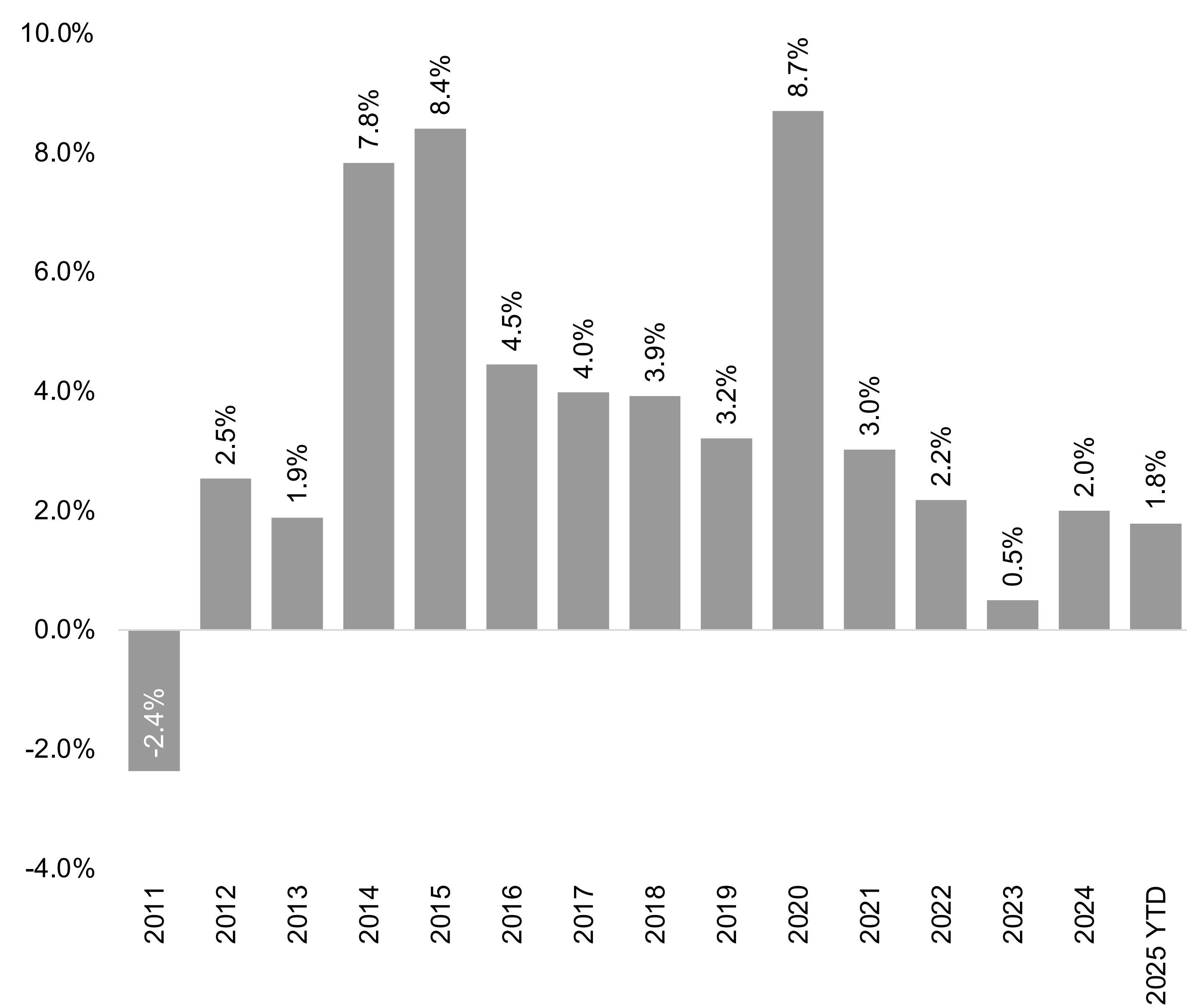
Rent Growth Driven by Newer Spaces But Begins to Stall

In the face of climbing vacancy rates, the average asking rate fell slightly from the first quarter's all-time high to $3.48/SF, although this still represented an annual increase of 1.8% over the year-ago quarter. Modest rent growth every year since 2021 has continuously lagged the rate of inflation.

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



Year-over-Year Asking Rent Growth Rate

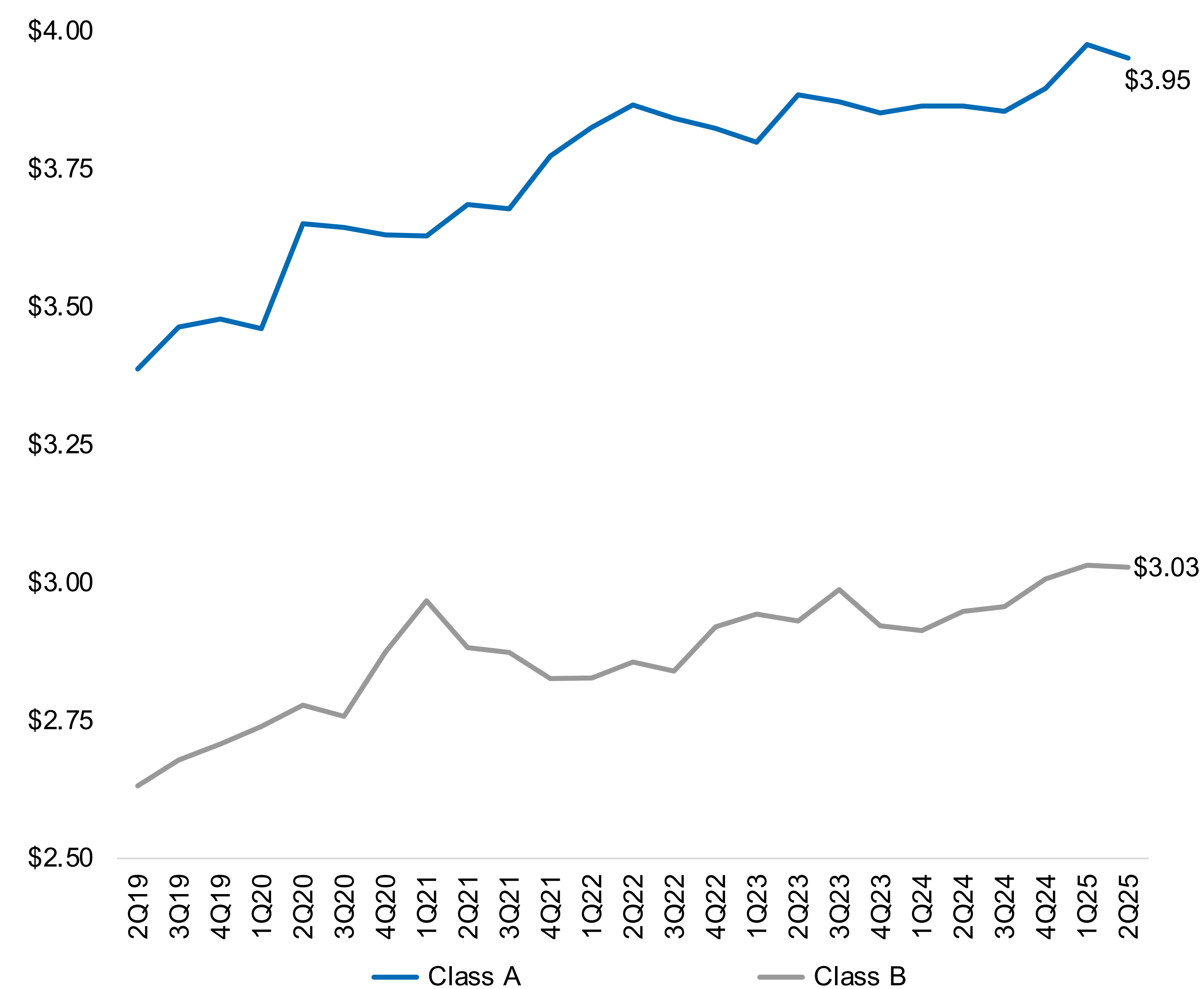


Source: Newmark Research, CoStar

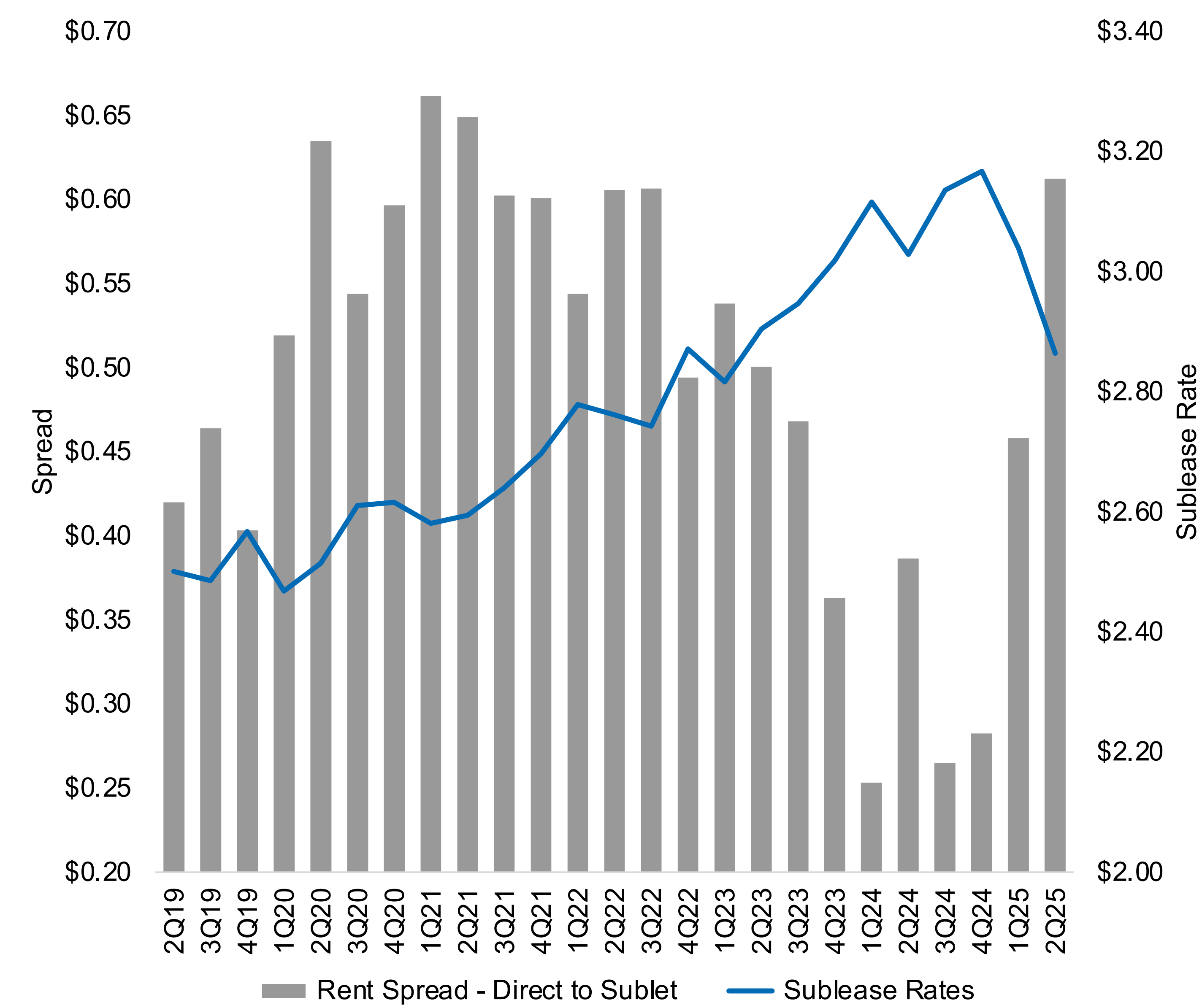
Class A and B Rents Maintain Spread

Class A rents have maintained a healthy premium to Class B rents with the delivery of new high-end space. Sublease rates fluctuated widely from 2023-2024 as large blocks of modern space hit the market in the post-pandemic realignment. The spread between sublease and direct rates has now stabilized in line with historical averages, and sublease space currently represents an average discount of $0.61/SF to direct space.

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



Sublease Asking Rates



Source: Newmark Research, CoStar

Notable Lease Transactions

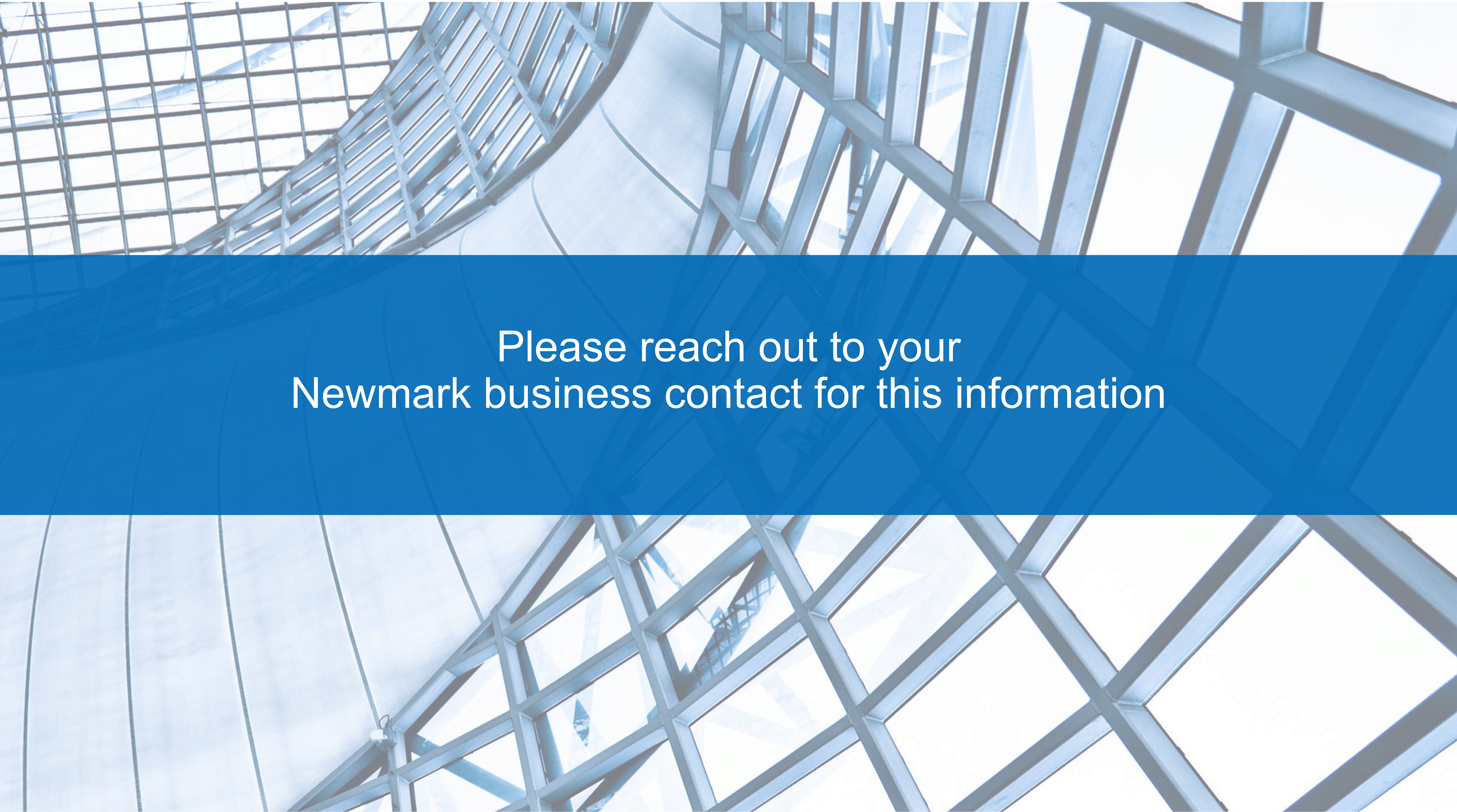
The largest renewal of the quarter was for the County of San Diego's South Region Family Resource Center in National City. The largest new lease took place in Carlsbad, where medical device company Orthofix Medical leased a whole building from Diversified Healthcare Trust.

Notable 2Q25 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
County of San Diego	401 Mile of Cars Way	National City	Renewal	84,987
The County of San Diego renewed its offices on the first floor of the South Bay Corporate Center.				
Orthofix Medical	5770 Armada Dr	Carlsbad	New Lease	81,711
Spinal and orthopedic manufacturer leased an entire building in Carlsbad.				
Wilson Sonsini	11988 El Camino Real	Del Mar Heights	New Lease	44,718
Corporate attorney leased two floors at Del Mar Gateway.				
J. Craig Venter Institute	950 Waterfront Pl	Downtown	New Lease	42,726
Genomics nonprofit relocating from La Jolla to Downtown's RaDD project.				
DermTech	12340 El Camino Real	Del Mar Heights	Downsizing	28,769
Dermatology testing company downsizing from three floors to one.				

Source: Newmark Research

Most Large Spaces are in Newer Construction



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Submarkets

San Diego Submarket Map and High-Level Statistics | 2Q25

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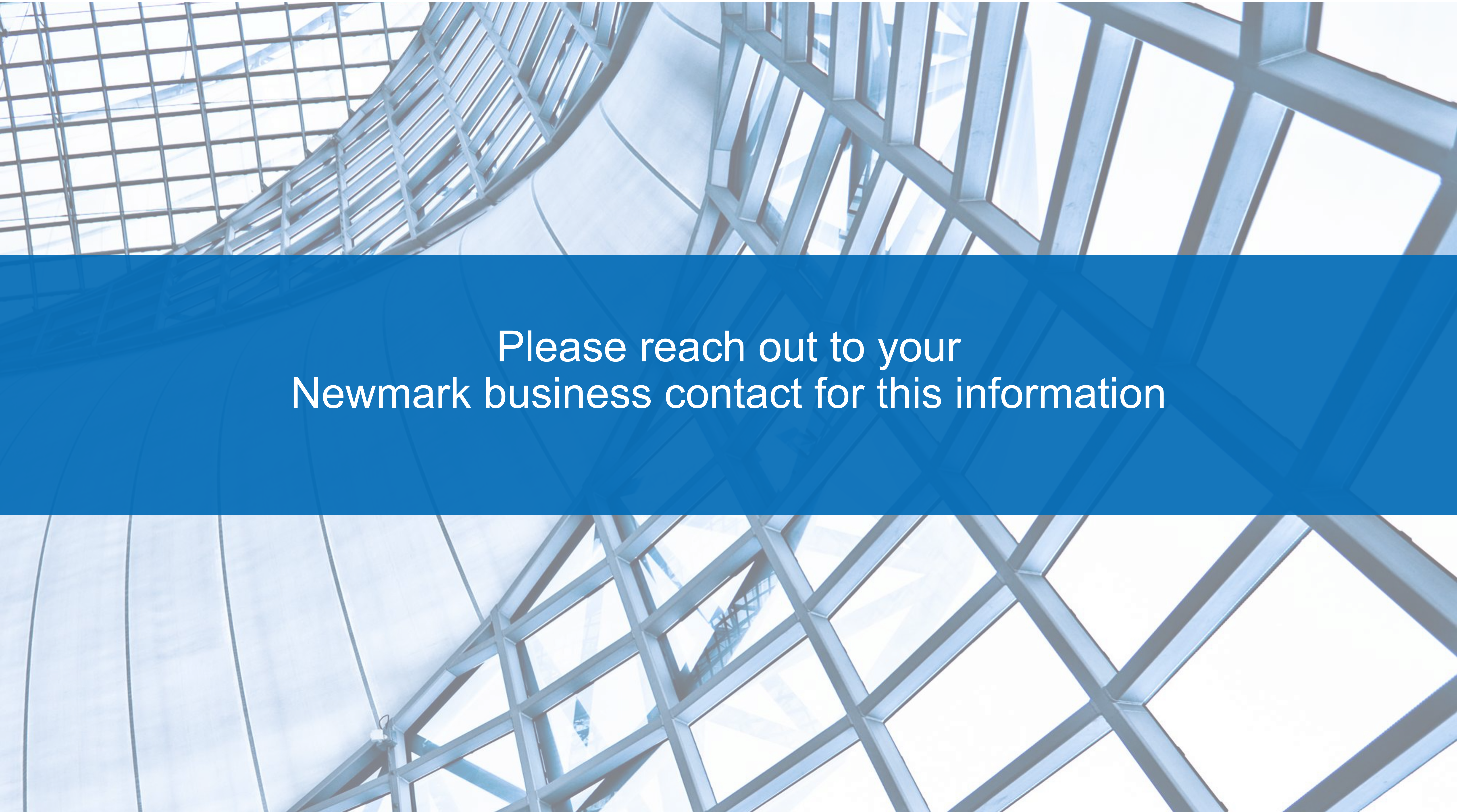

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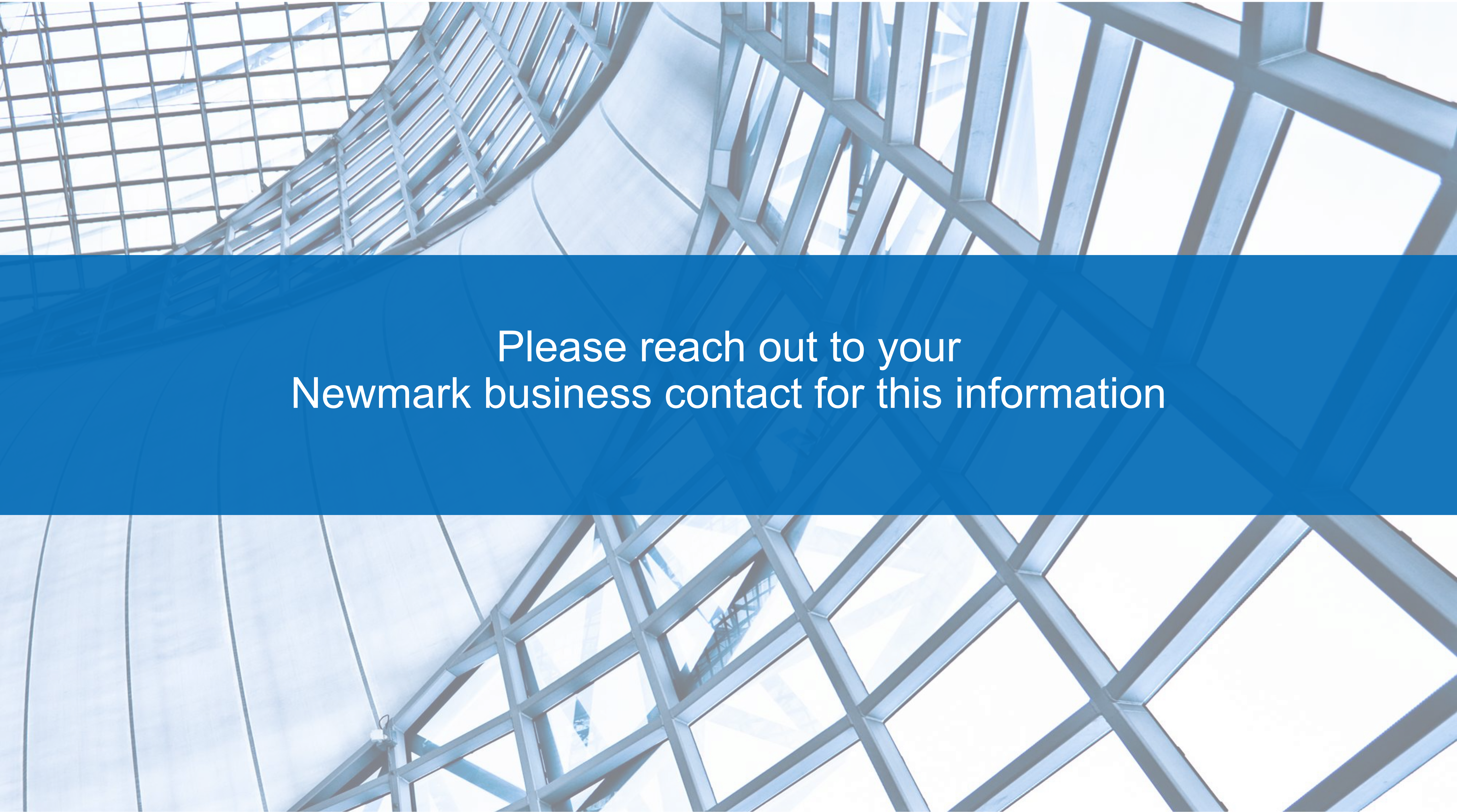
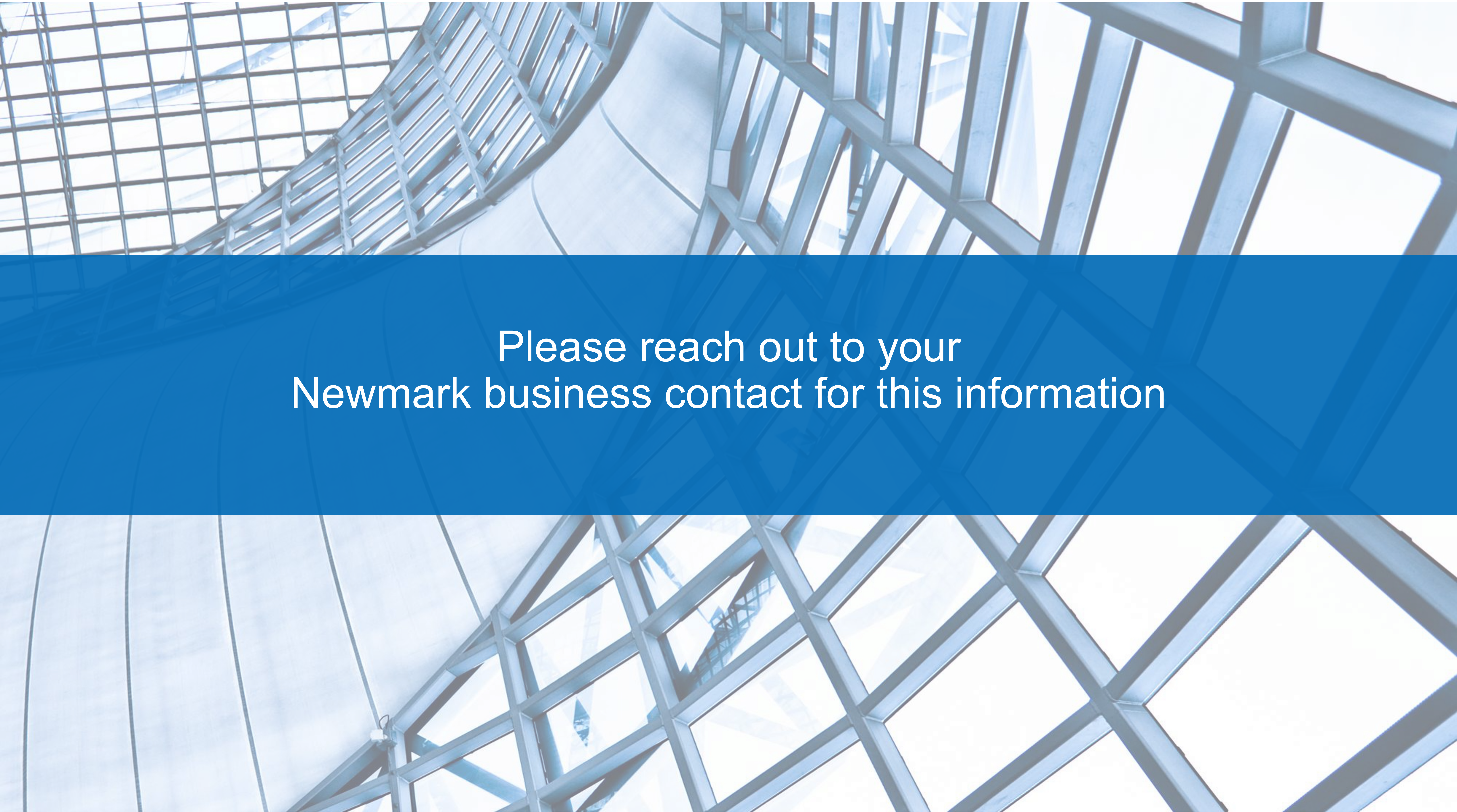
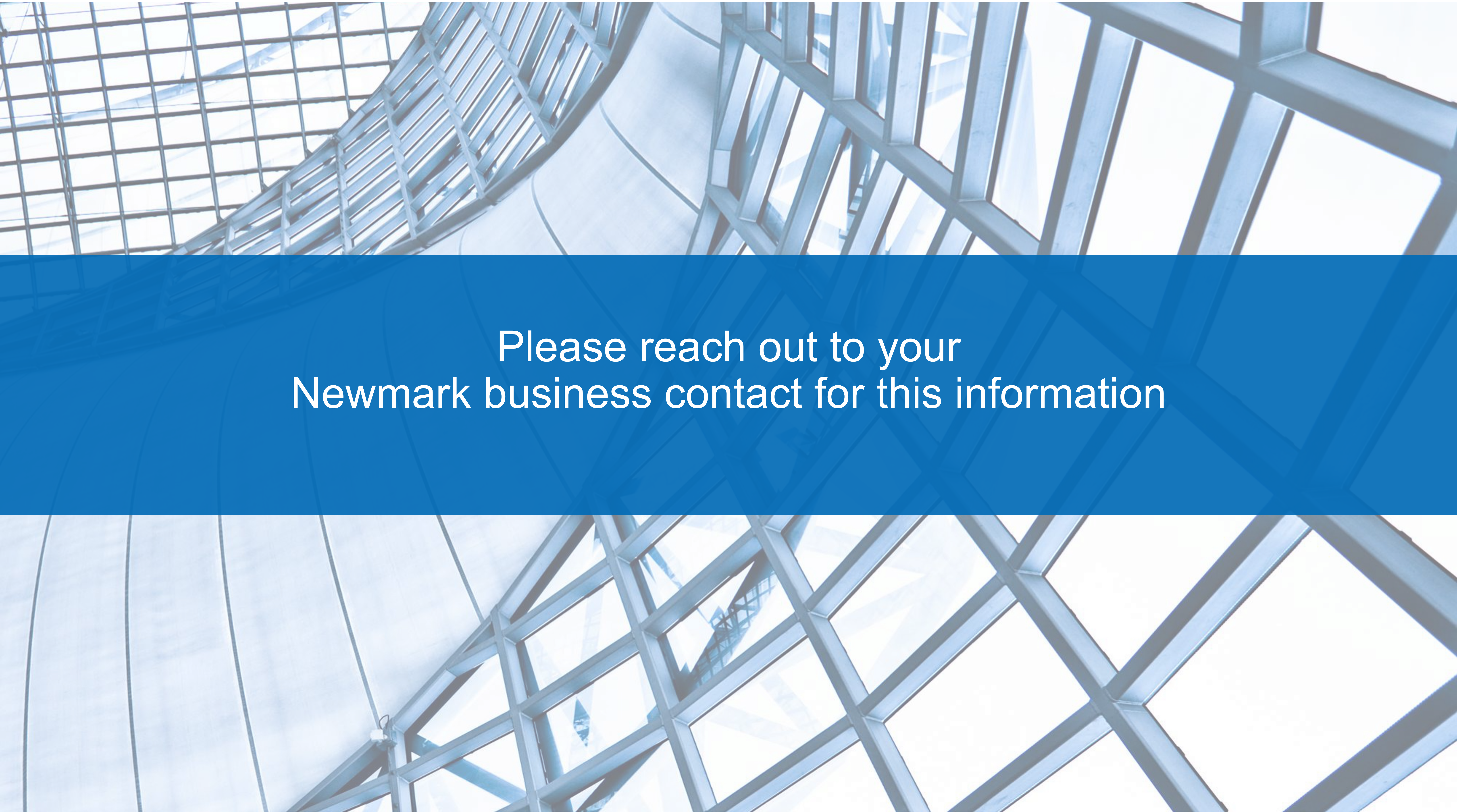
San Diego Submarket Statistics | 2Q25 (page 2 of 2)



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



Sublease Availability by Submarket



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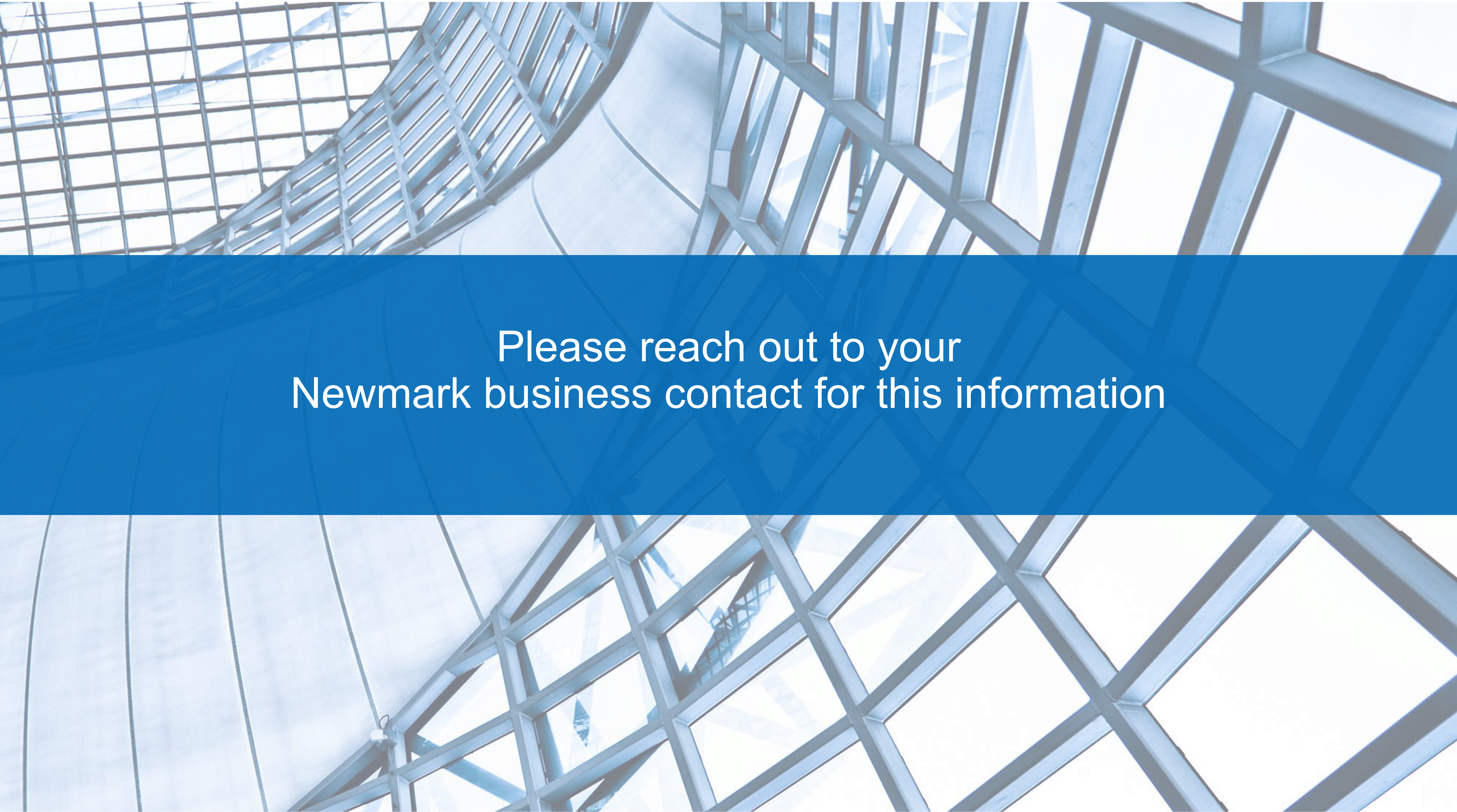
Downtown Has the Most Construction as Pipeline Dwindles



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

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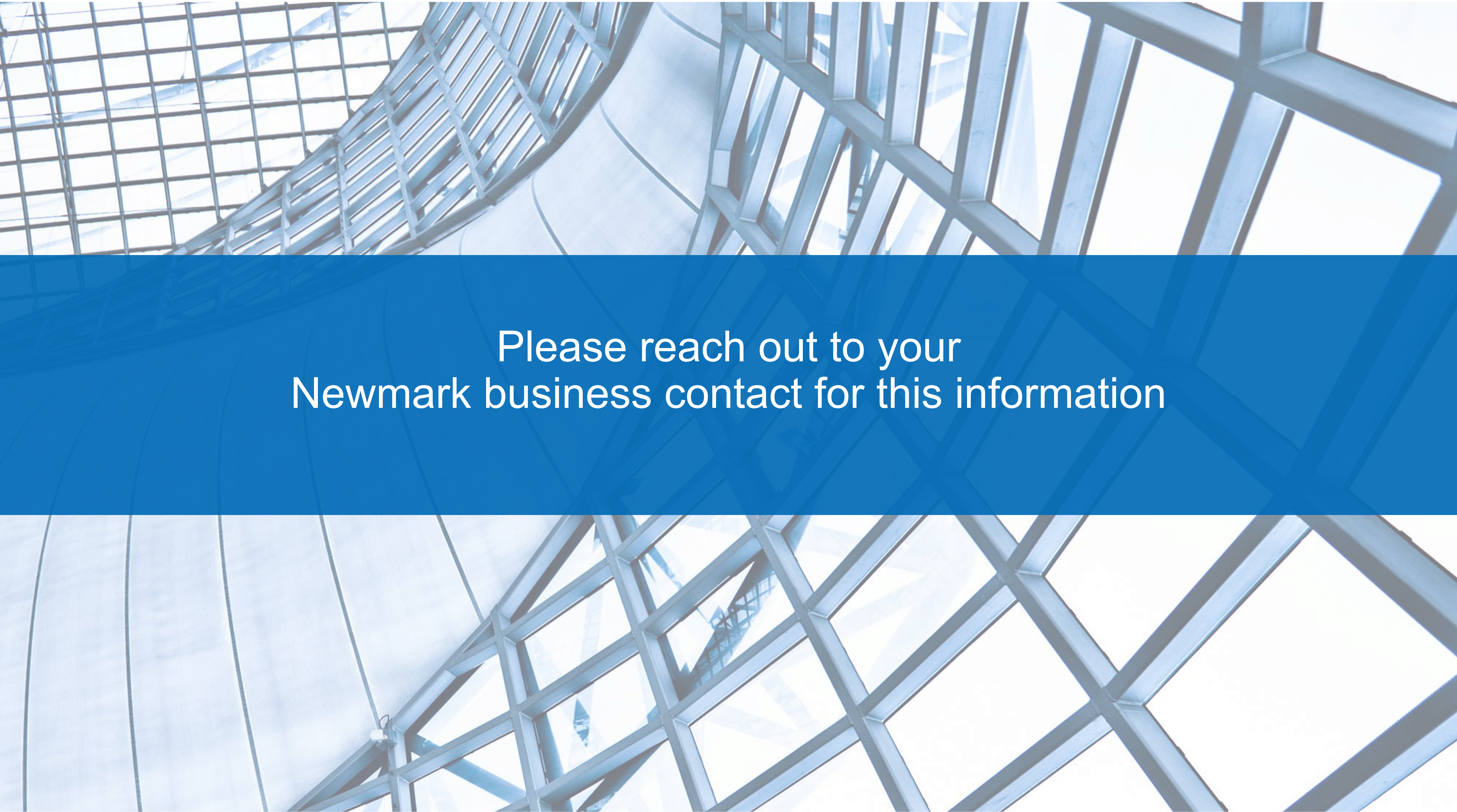
Capital Markets & Life Science

Office Volume Boosted by Large Life Science Deals



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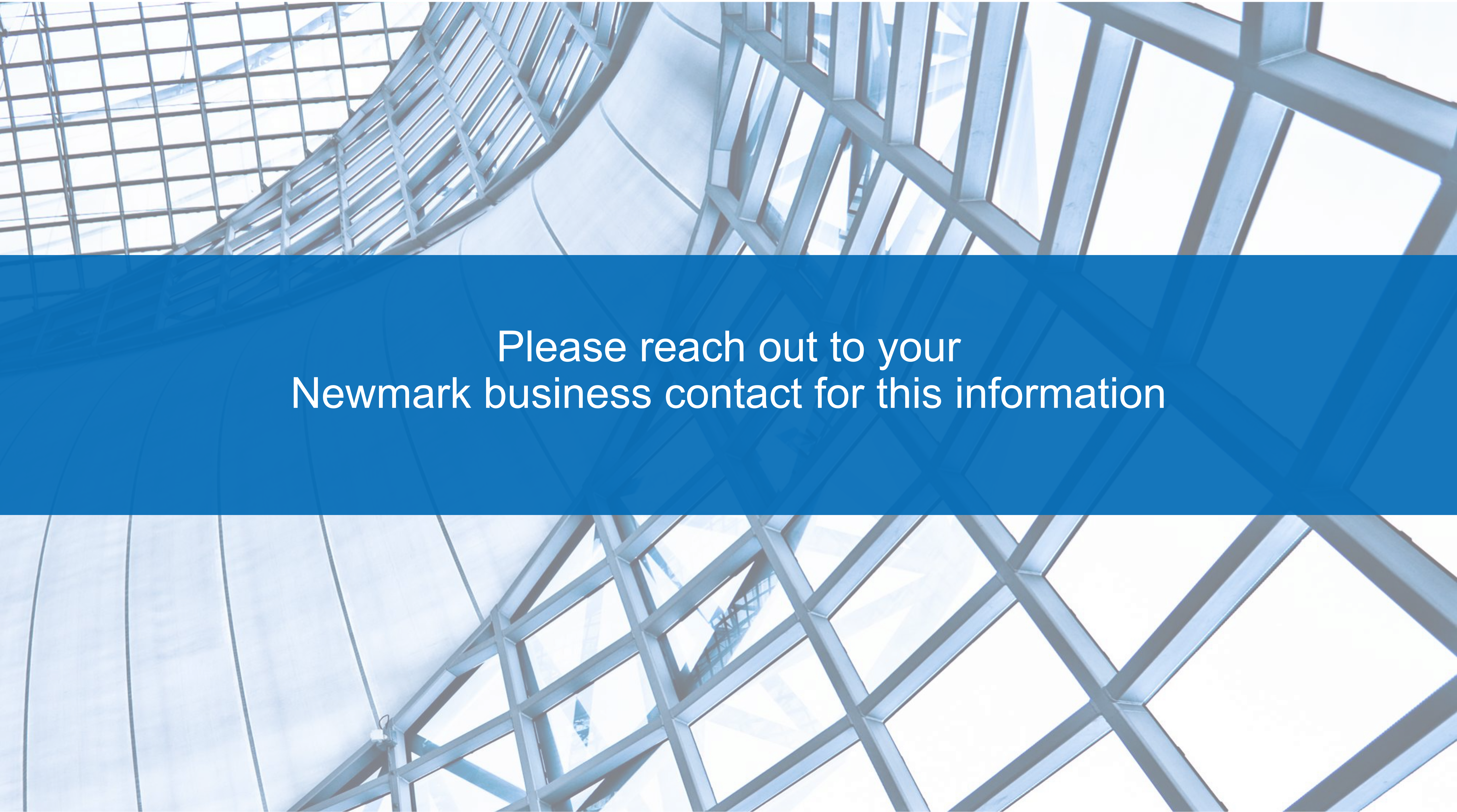
Office Accounted for Roughly a Fourth of Total Sales Volume



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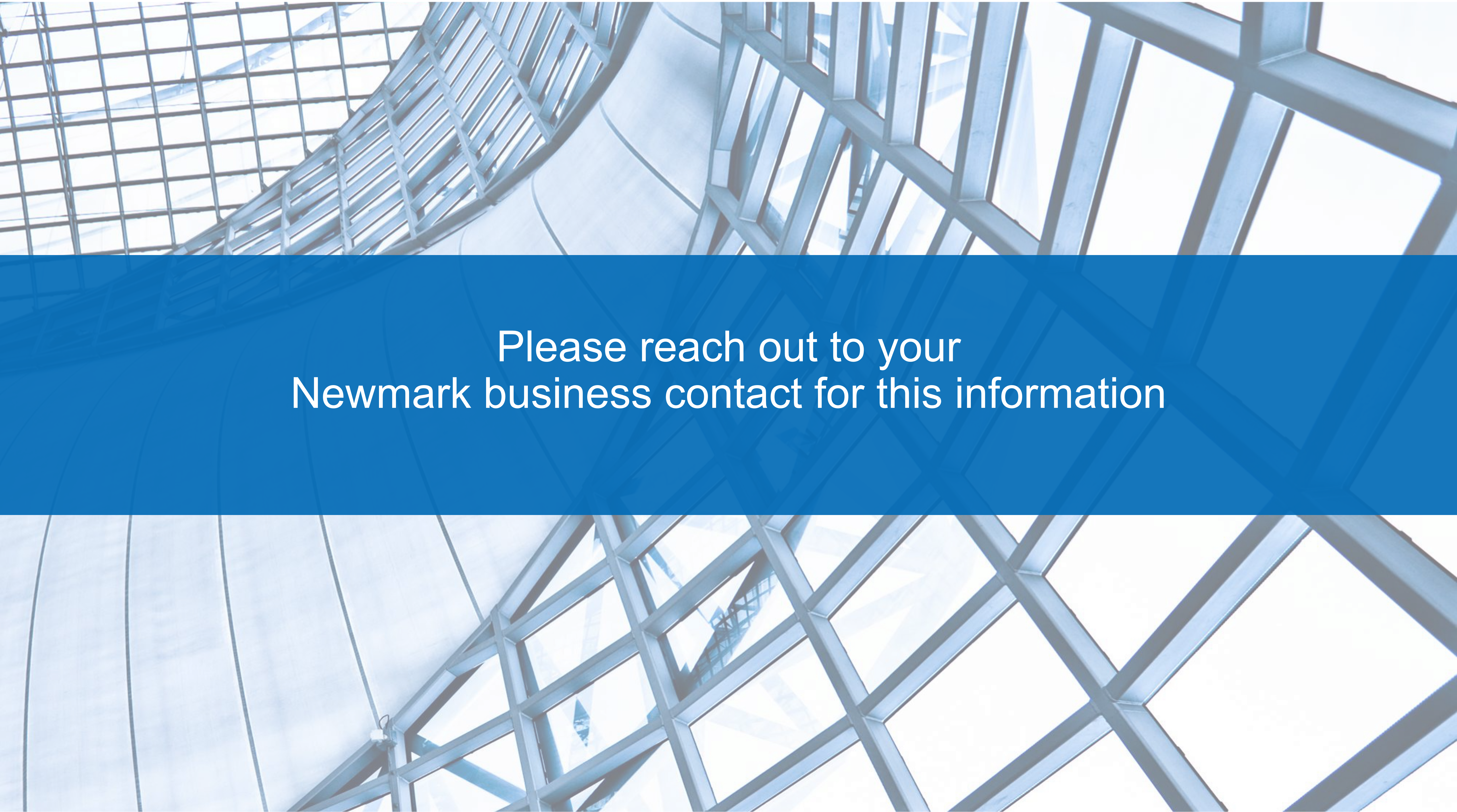
Institutional Buyers Account for the Bulk of Diminished Investments



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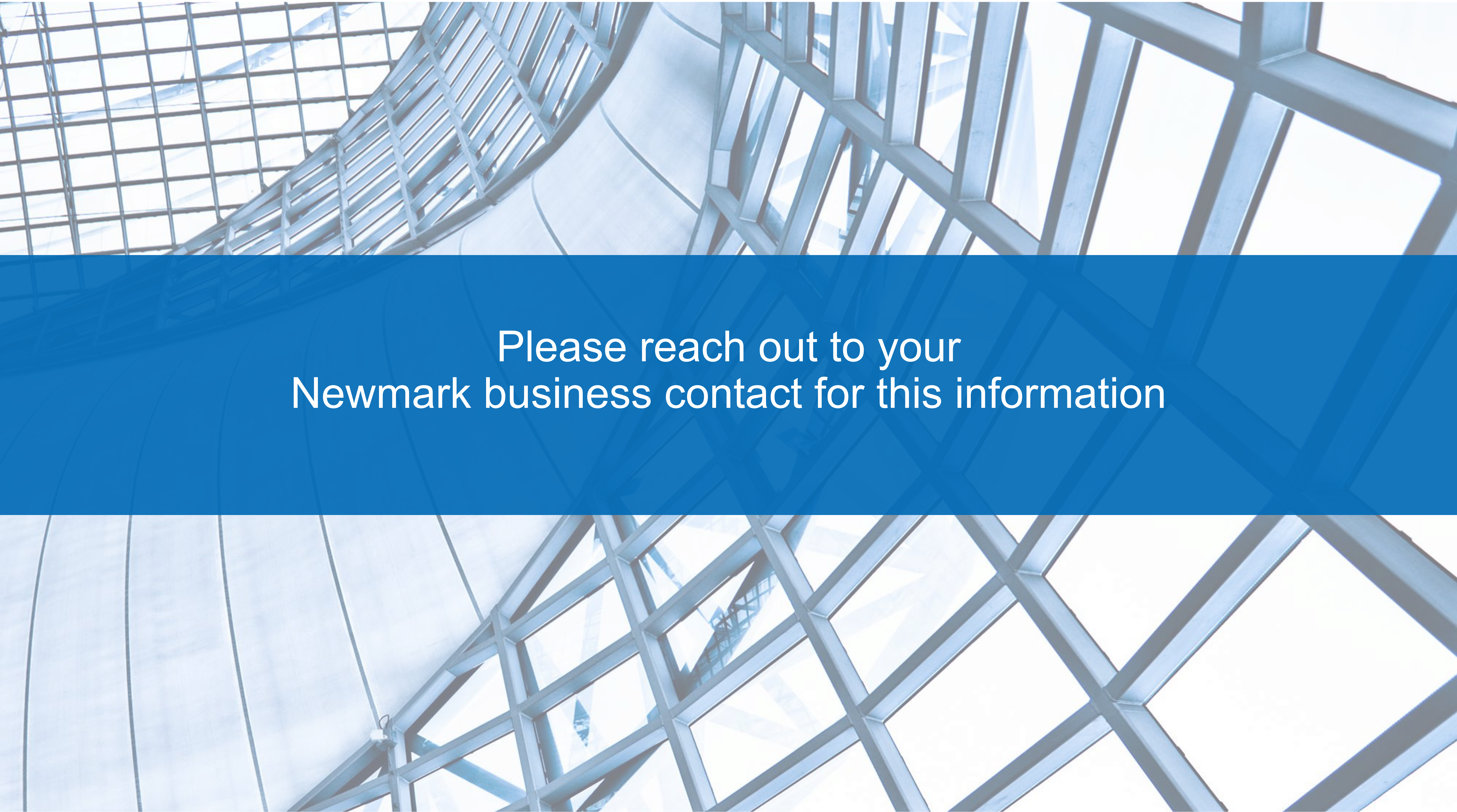
Price Per Square Foot Has Fallen as Cap Rates Have Recovered



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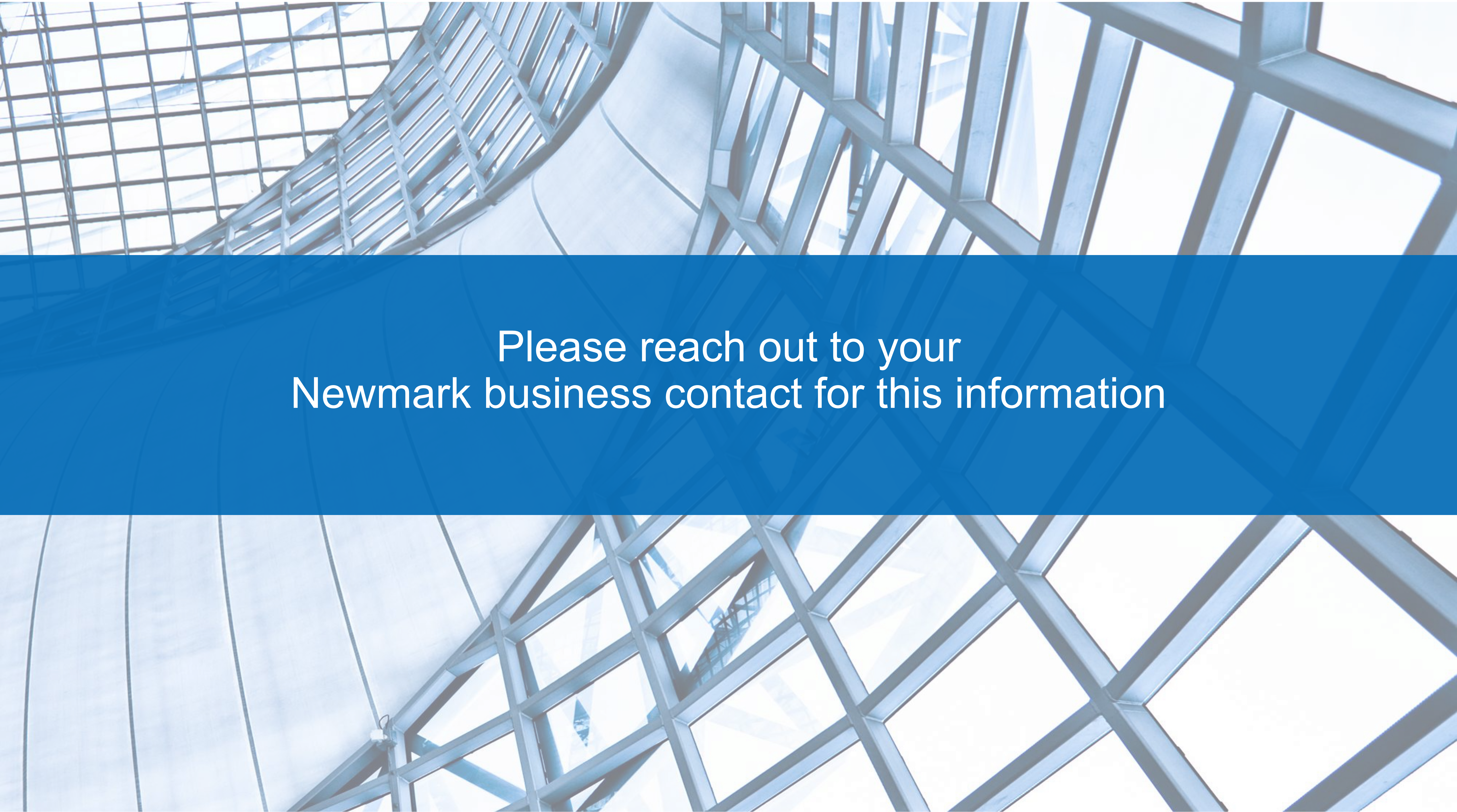
Life Science Funding Dips in the First Quarter



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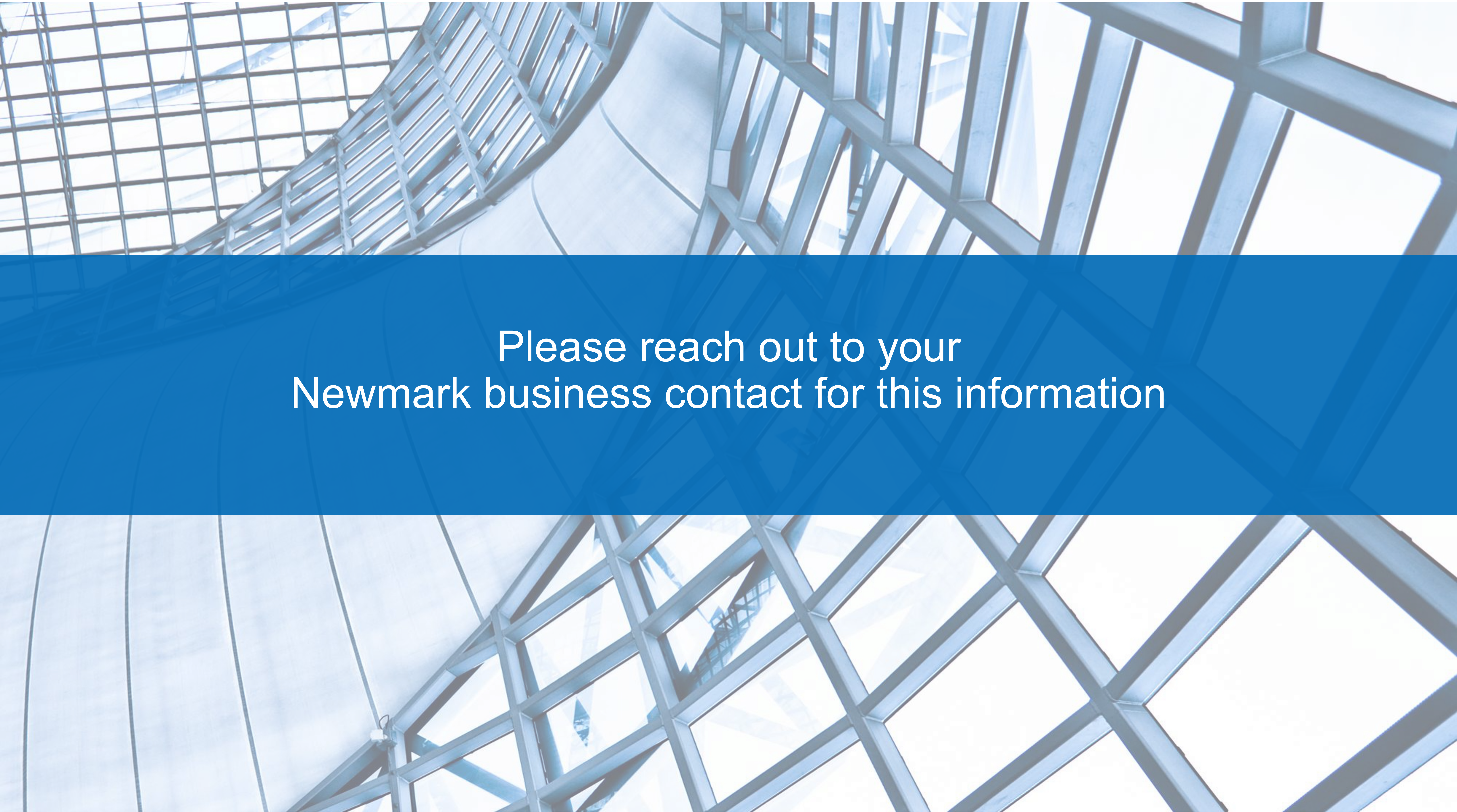
Life Science Mergers and Acquisitions Pick Up the Pace



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Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at nmrk.com/insights.

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