

3Q25

San Diego Office Market Overview



NEWMARK

Market Observations



- The region’s unemployment rate was 5.0% in August 2025, up 10 basis points over the past year and the highest rate since October 2021. The region added only 7,700 jobs over the past 12 months and office-using sectors contracted by 10,200 jobs.
- The consumer price index for all urban customers in the San Diego metropolitan area was up 4.0% annually as of July 2025, down from the high of 8.1% in the first half of 2022.
- In September 2025, the rolling 12-month median sale price for a single-family home in San Diego County was \$1,050,000, unchanged since December 2024. The high price of home ownership has put pressure on population growth.
- In September, the Federal Reserve cut its interest rate target by 25 basis points and indicated two more cuts are likely this year.



- Lincoln Property Company purchased AMP&RSAND, the creative office redevelopment of the former Union-Tribune printing facility in Mission Valley, from CIM Group for \$92.0M.
- The County of San Diego executed the largest lease deal of the quarter, renewing the 53,000-SF space for the Healthy & Human Services Agency in Mission Valley.
- The City of San Diego signed a lease expansion for the Family Justice Center in Kearny Mesa, growing its footprint to 44,275 SF.



- The average monthly asking rate fell slightly from last quarter’s all-time high to \$3.48/SF. The current rate is 2.2% higher than 12 months ago.
- Net absorption has been essentially flat all year, posting modest gains of 9,046 SF for the quarter and year-to-date losses of 43,989 SF. Leasing activity remained low, totaling 878,150 SF for the quarter.
- Total vacancy climbed to 20.2%, up 290 basis points over the past year as large deliveries introduced a large amount of new vacant space to the market.
- 280,761 SF of new office space delivered this quarter, coming on the heels of a record-setting 2.9 MSF of new deliveries during the first half of the year. The pipeline has contracted significantly, with only 1.4 MSF of under-construction space remaining.
- Sublease availability totaled 2.5 MSF, representing 3.2% of existing inventory. This is in line with the 5-year average and down from 4.3% a year ago.



- The slowing job market means office demand is unlikely to pick up in the short term, leaving landlords to plan for continued low levels of leasing.
- Capital markets have been holding out hope for interest rates to fall, and with the Federal Reserve planning on two more rate cuts this year, investors will be looking to reevaluate the economics of potential purchases.
- Downtown has been particularly impacted by rising vacancy and a growing number of recent sales intend to reposition underperforming office properties as either discounted office space or apartments.

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

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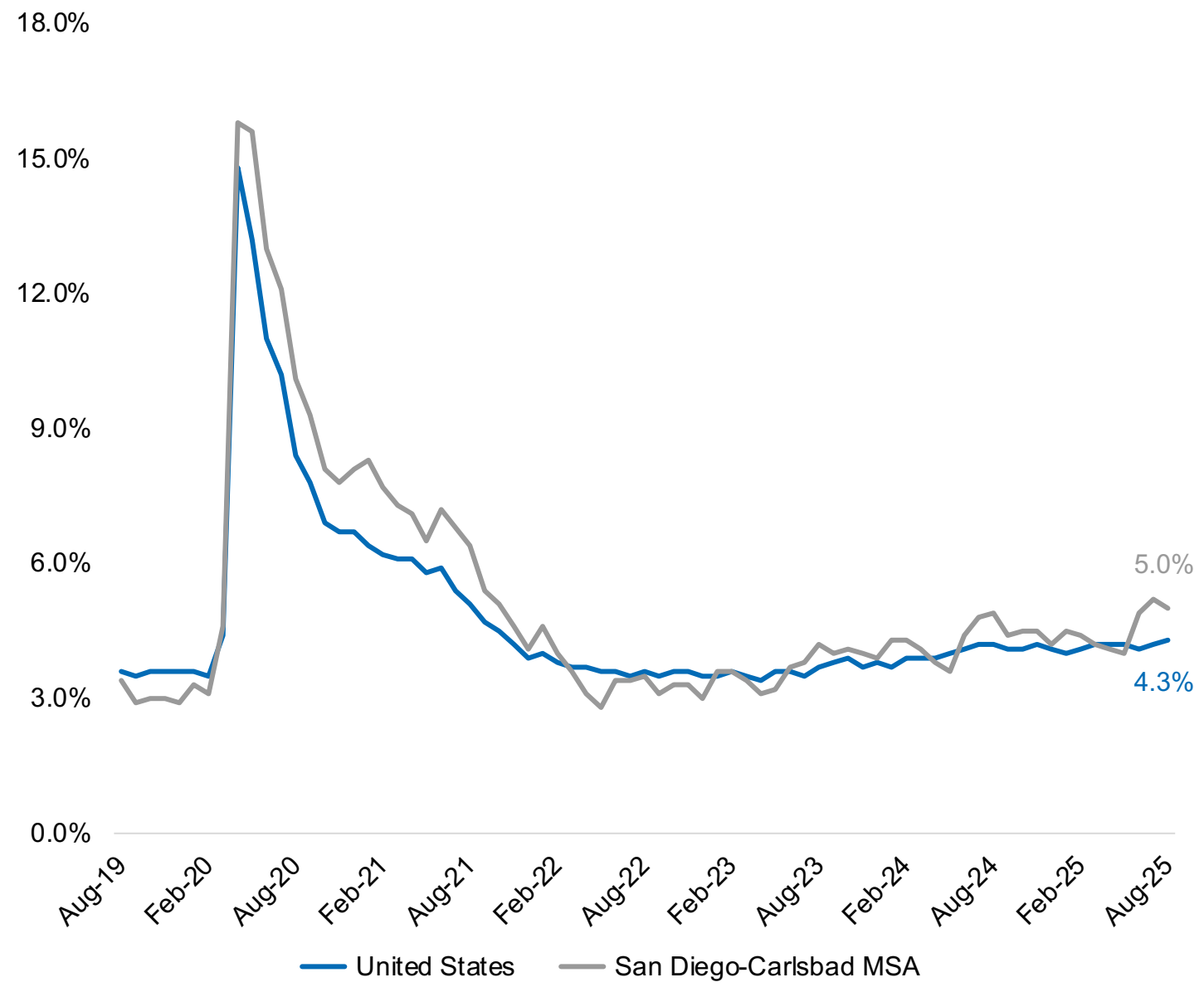
Economy



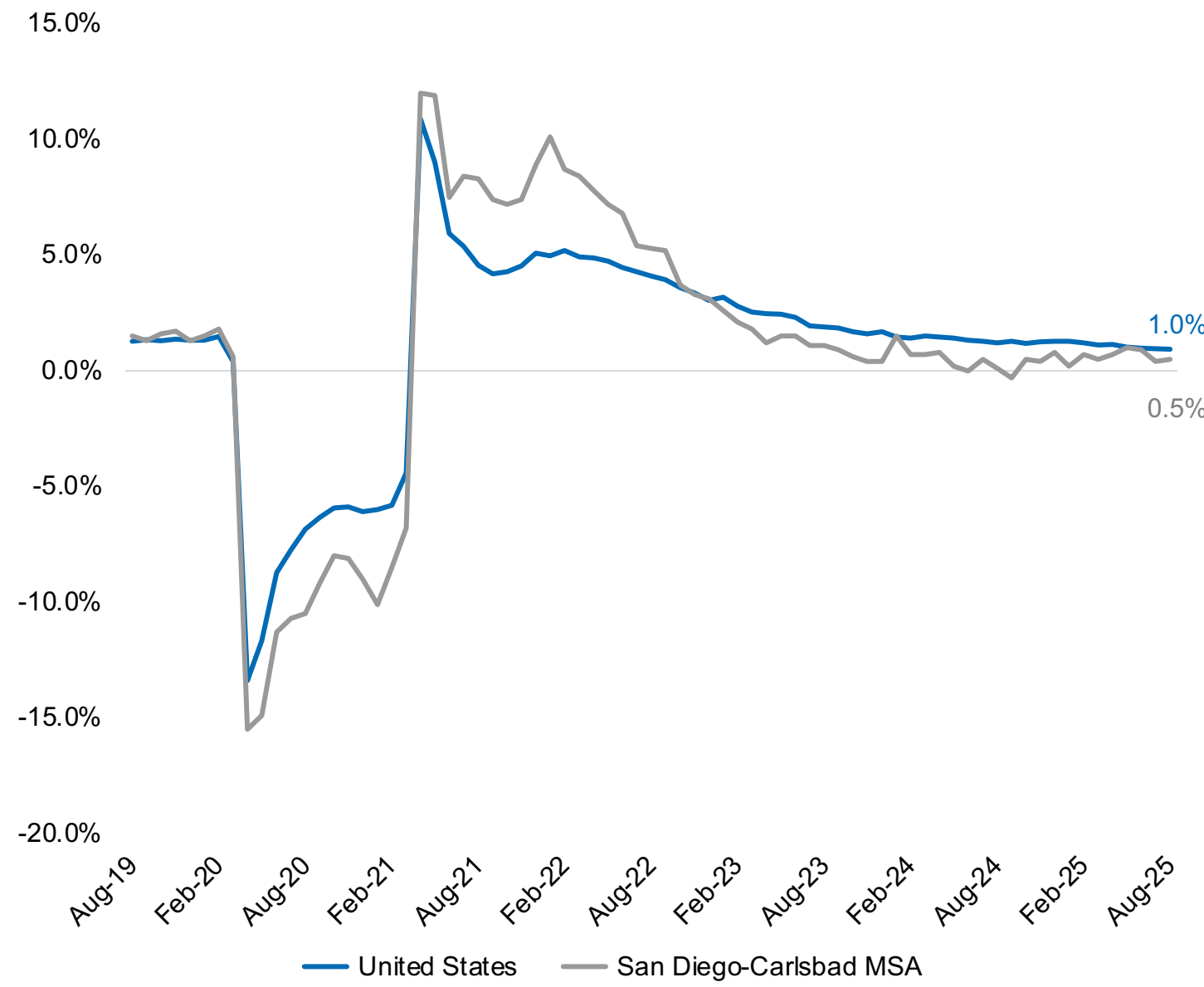
Unemployment Ticks Up as Job Growth Slows

The local unemployment rate was 5.0% in August 2025, up 10 basis points over the past year and the highest since 2021. During this time total nonfarm employment posted minimal gains: employers reported an additional 7,700 jobs over the past year, representing growth of 0.5%, which lagged the national average.

Unemployment Rate, Seasonally Adjusted



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



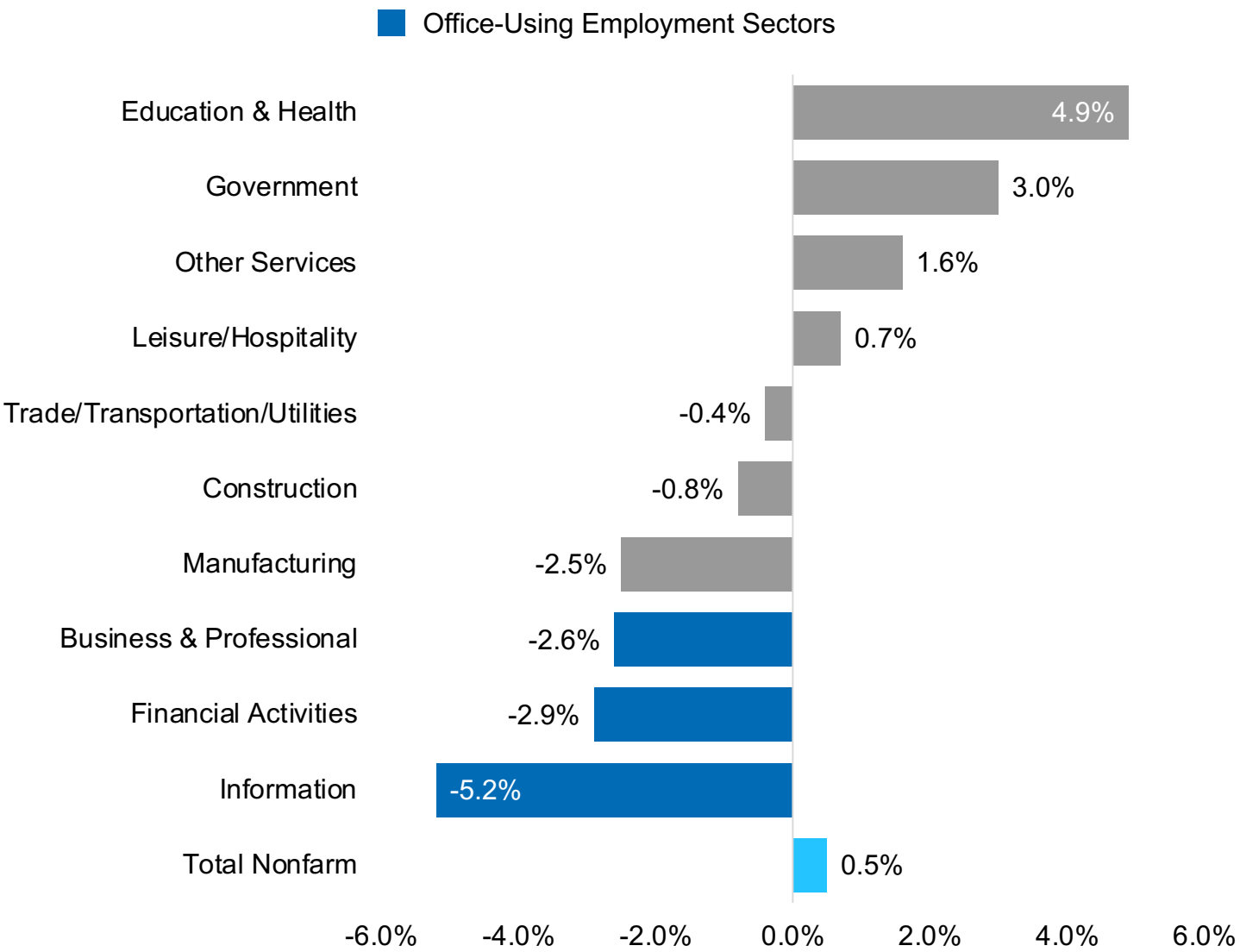
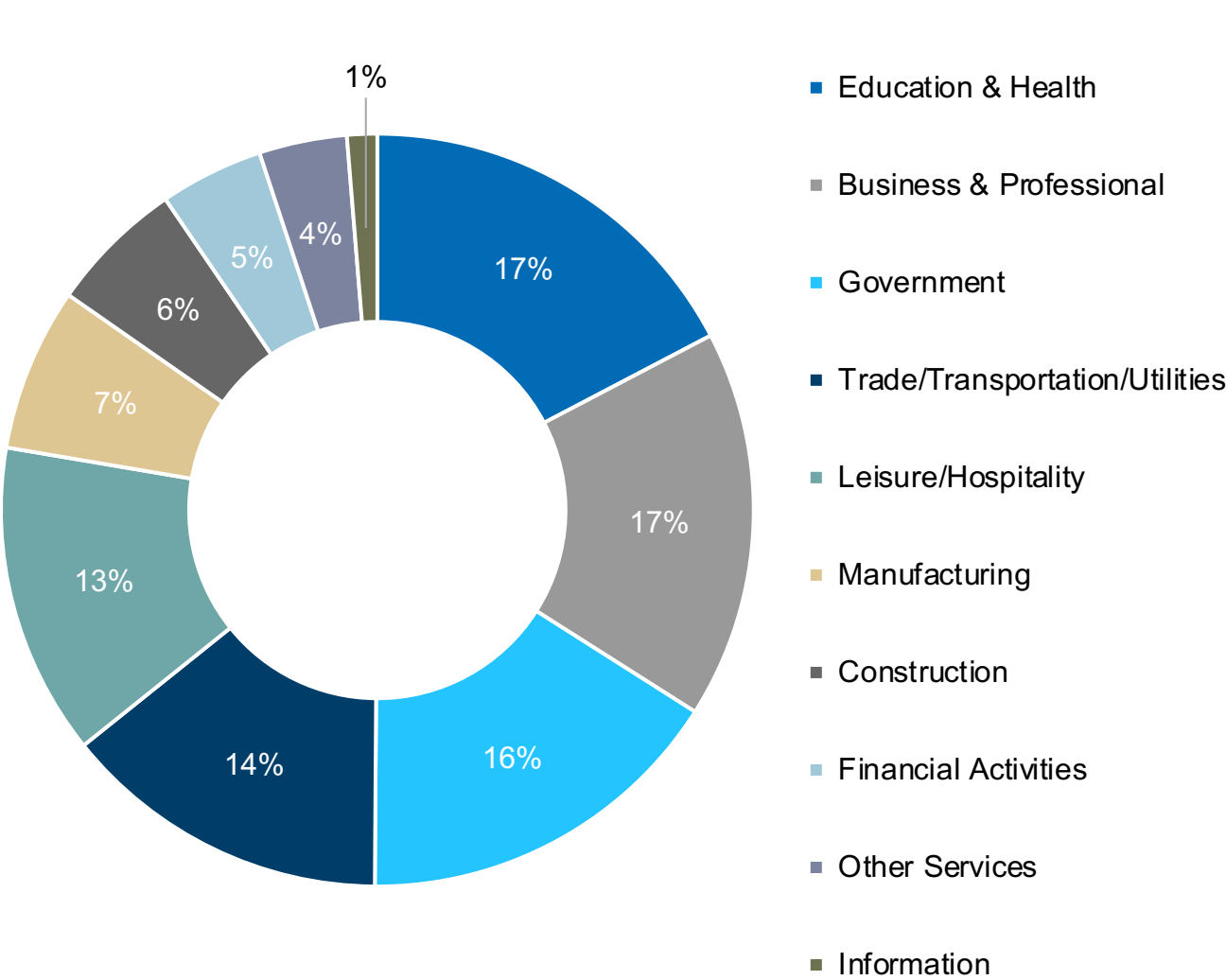
Source: U.S. Bureau of Labor Statistics, San Diego-Carlsbad MSA

Business & Professional is No Longer the Largest Employment Sector

For most of 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 government and the education and health sectors have been growing rapidly — in April 2025 education and health surpassed business and professional to become the region’s largest employment sector. Office-using jobs in the smaller financial activities and information sectors have been shrinking even faster.

Employment by Industry, August 2025

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

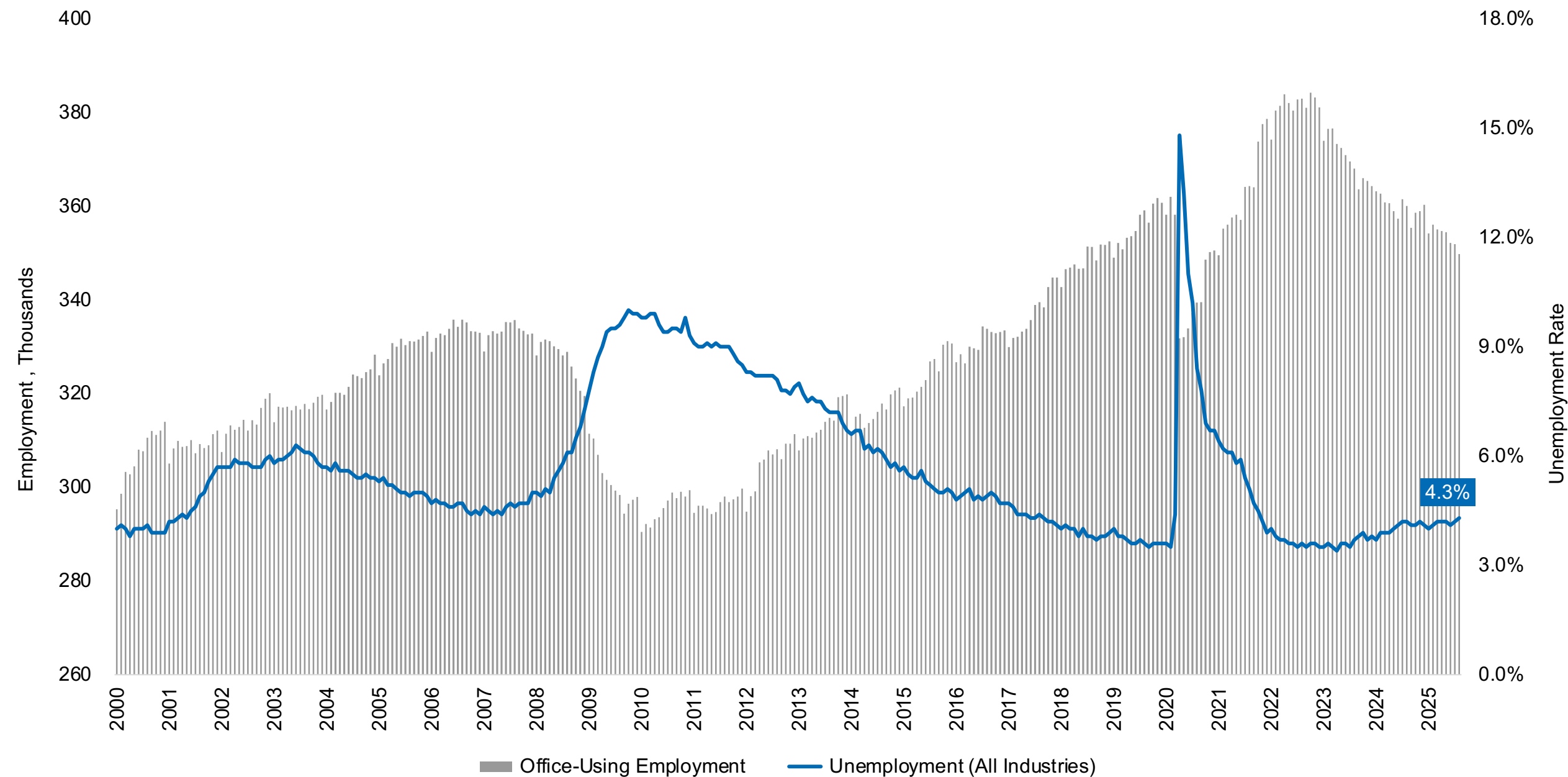


Source: U.S. Bureau of Labor Statistics, San Diego-Carlsbad MSA

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 1,100 jobs over the past year, financial activities lost 2,100 jobs, and business and professional shed 7,000 jobs. By comparison, education and health had the best performance over the past year, adding 12,500 jobs, while government agencies added 7,400 jobs.

Office-Using Employment* and Unemployment Across All Industries



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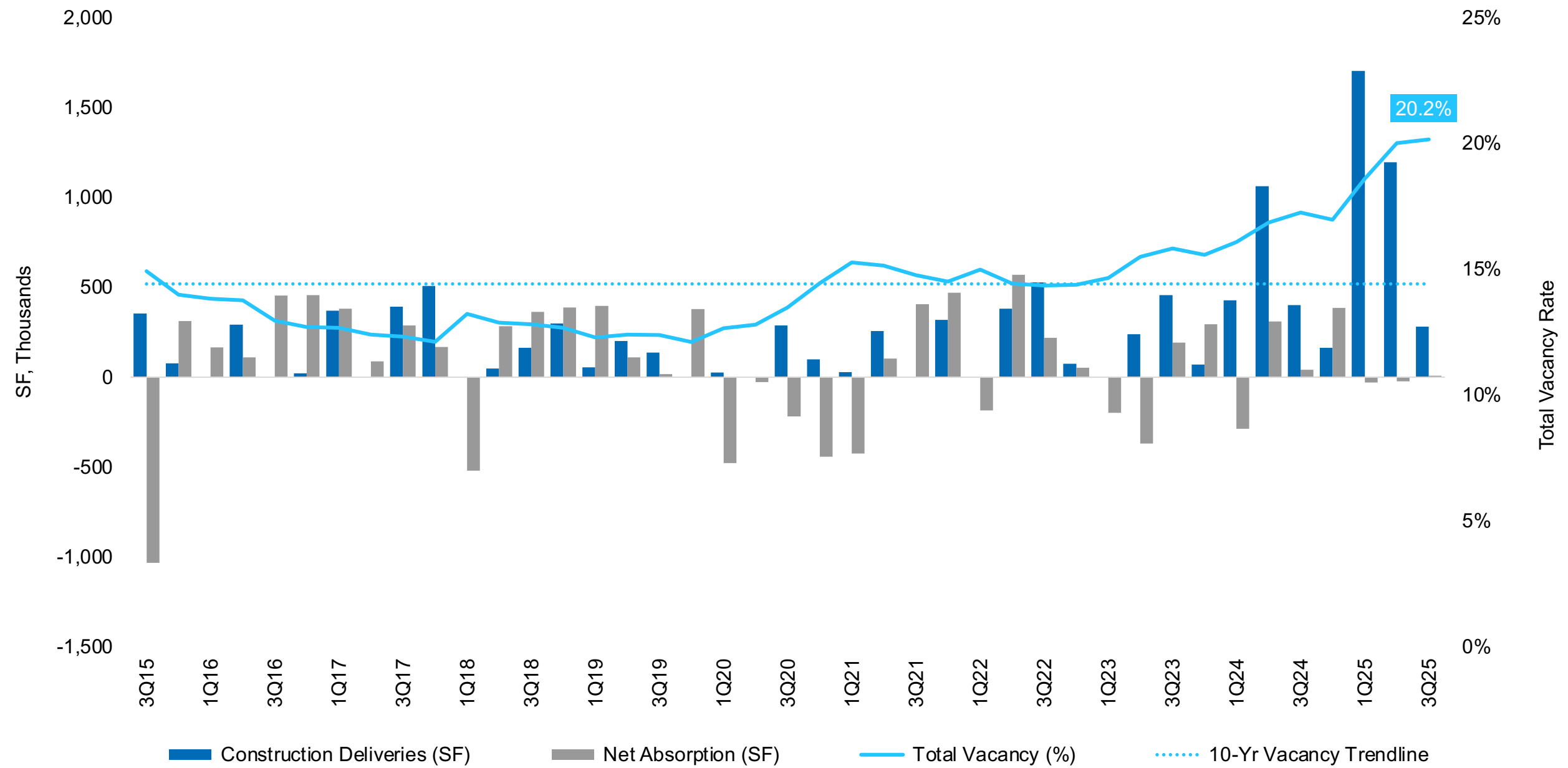
Leasing Market Fundamentals



Vacancy Climbed After Large Deliveries

The first three quarters of 2025 saw 3.2 MSF in construction deliveries, already surpassing the previous largest annual total on record. This mostly unleased new inventory has caused total vacancy to climb to 20.2%, also an all-time high, despite modest positive absorption in the third quarter. Delivery levels were elevated due to large life science developments in the Downtown and Sorrento Mesa submarkets.

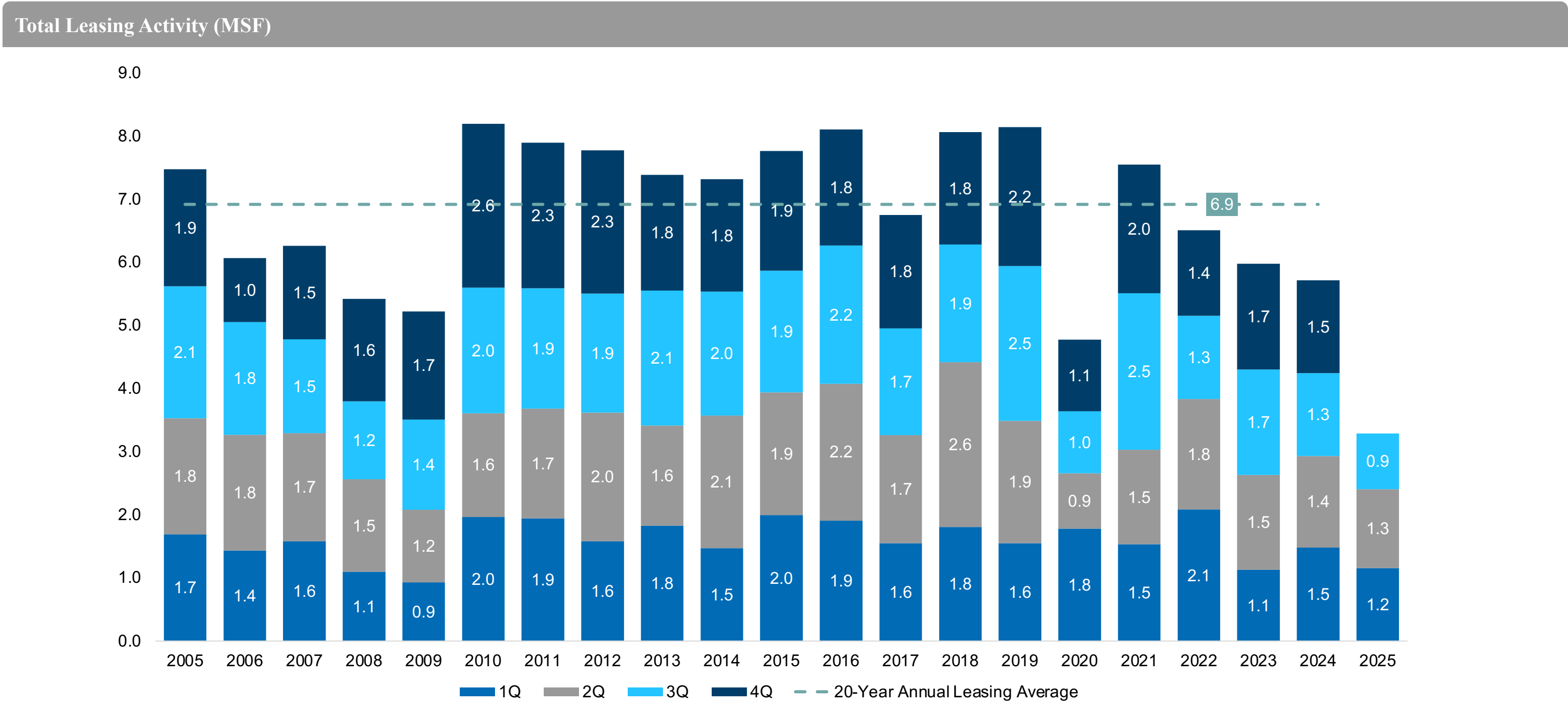
Historical Construction Deliveries, Net Absorption and Vacancy



Source: Newmark Research

Leasing Activity Continues to Decline Through the Third Quarter

Leasing activity has lagged the historical annual average of 6.9 MSF since 2021 and has steadily decreased each year. Year to date, 2025 saw only 3.4 MSF in leasing activity, on track to be the slowest year since 2020. The first three quarters of the year were slower than even 2009, during the Global Financial Crisis.

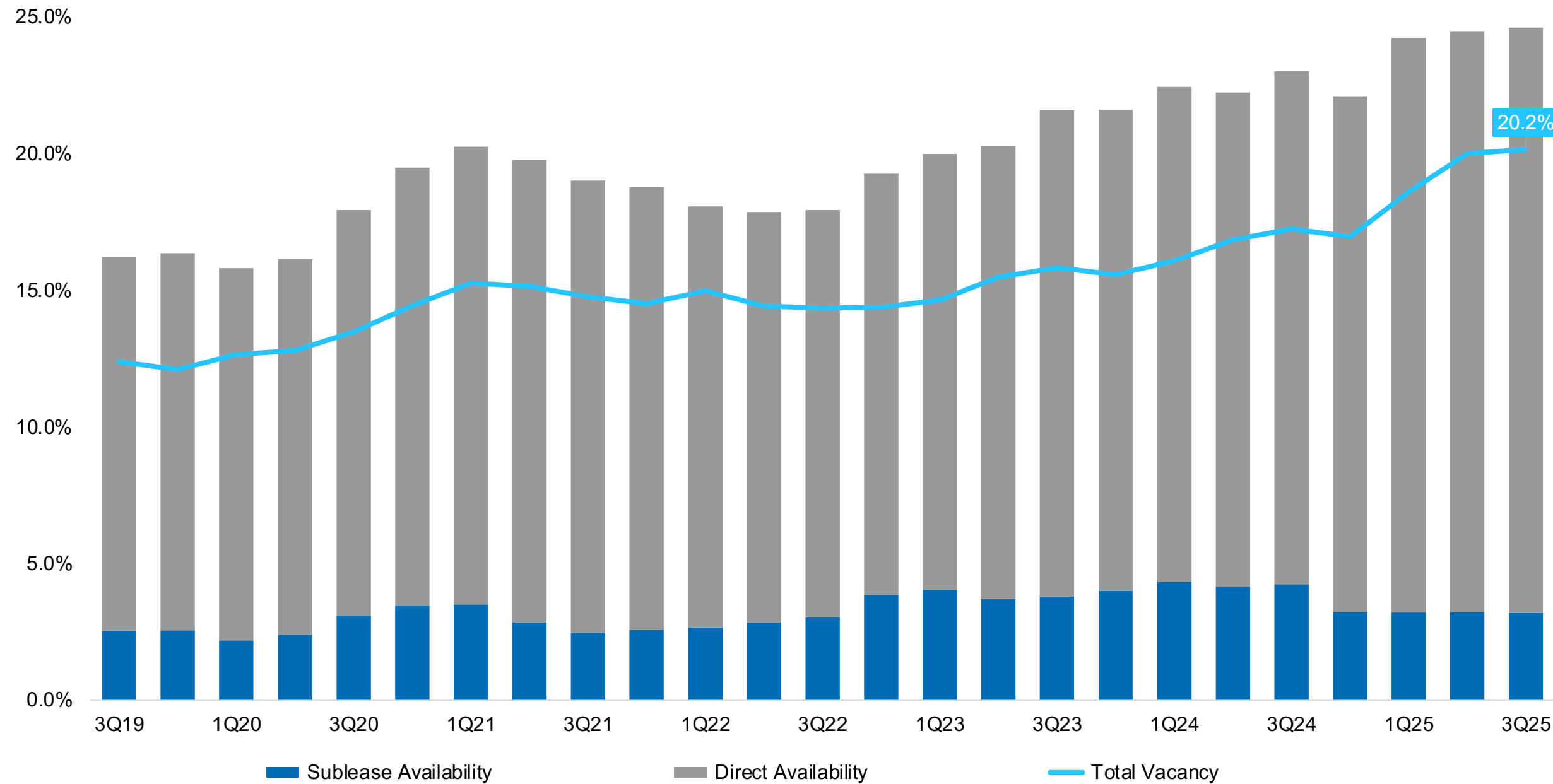


Source: Newmark Research, CoStar

Vacancy and Availability Remain Elevated

Vacancy climbed to 20.2% from 17.3% a year ago as new supply has continued to outstrip demand for space. Sublease availability has dipped since the highs of last year, as sublease offerings were withdrawn and landlords took these spaces to market direct, although this decline was more than offset by an increase in direct availability and deliveries of new vacant buildings.

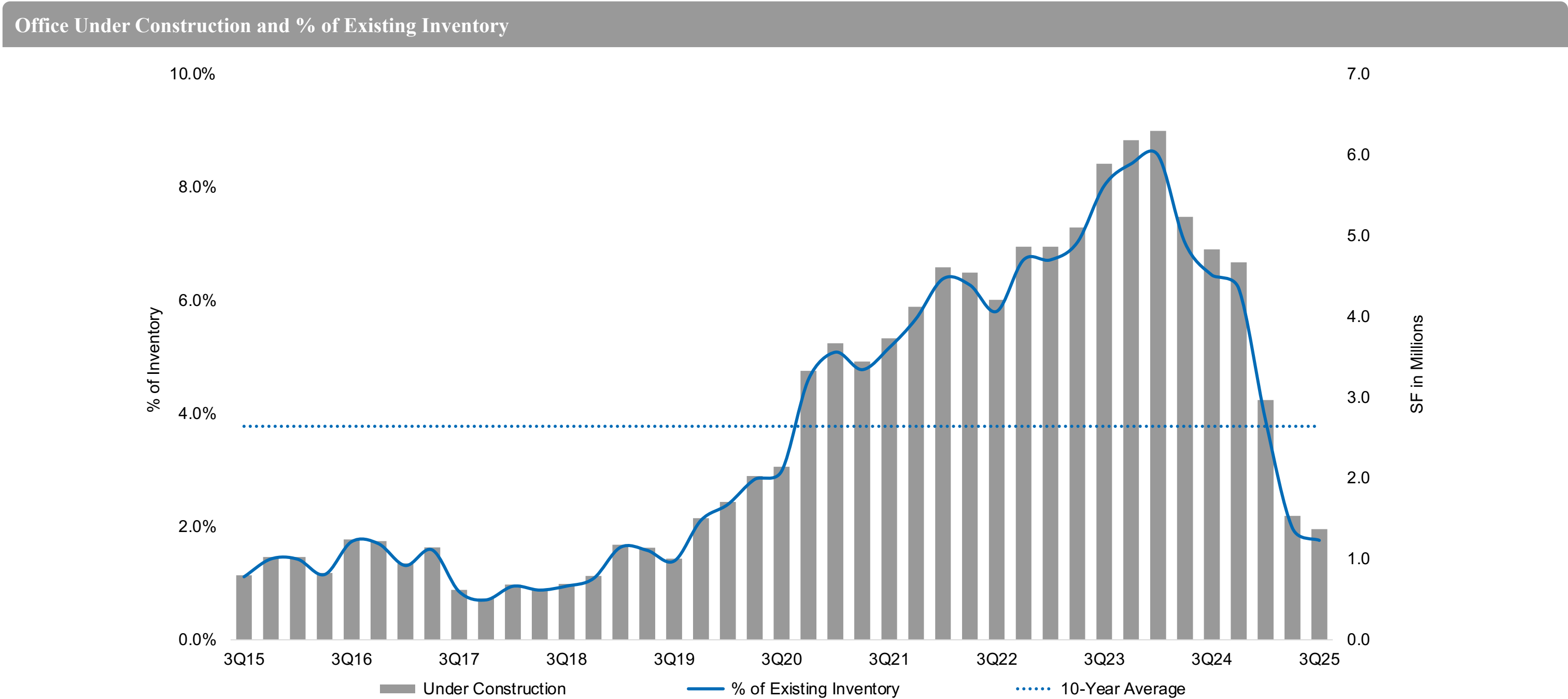
Available Space and Total Vacancy as Percent of Overall Market



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 1.4 MSF in projects under construction, down from the all-time high of 6.3 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 construction has long been stalled and the lender has taken control of the property.

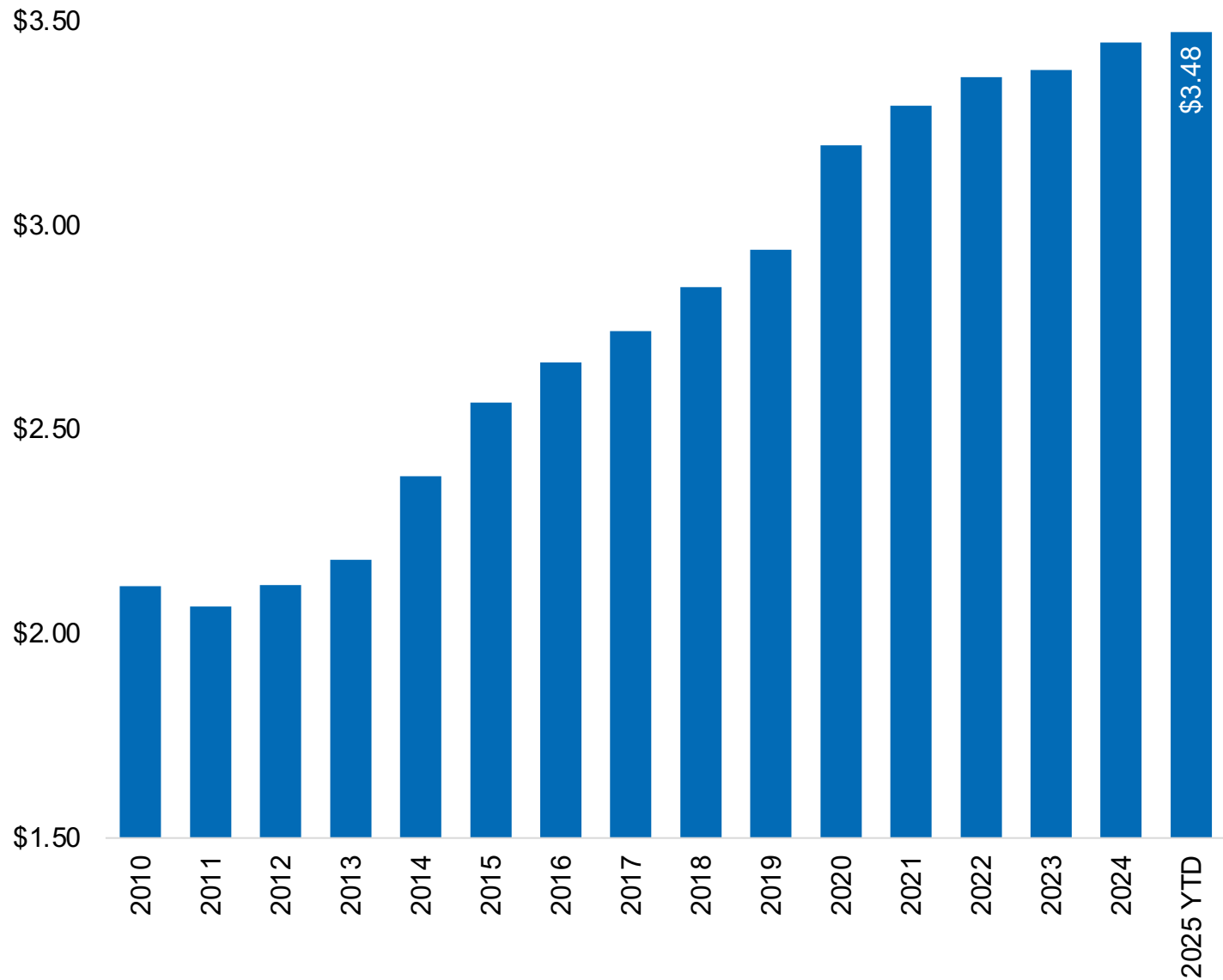


Source: Newmark Research, CoStar

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 2.2% over the year-ago quarter. Although rents have continued to increase modestly, rent growth has lagged the rate of inflation every year since 2021.

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



Year-over-Year Asking Rent Growth Rate

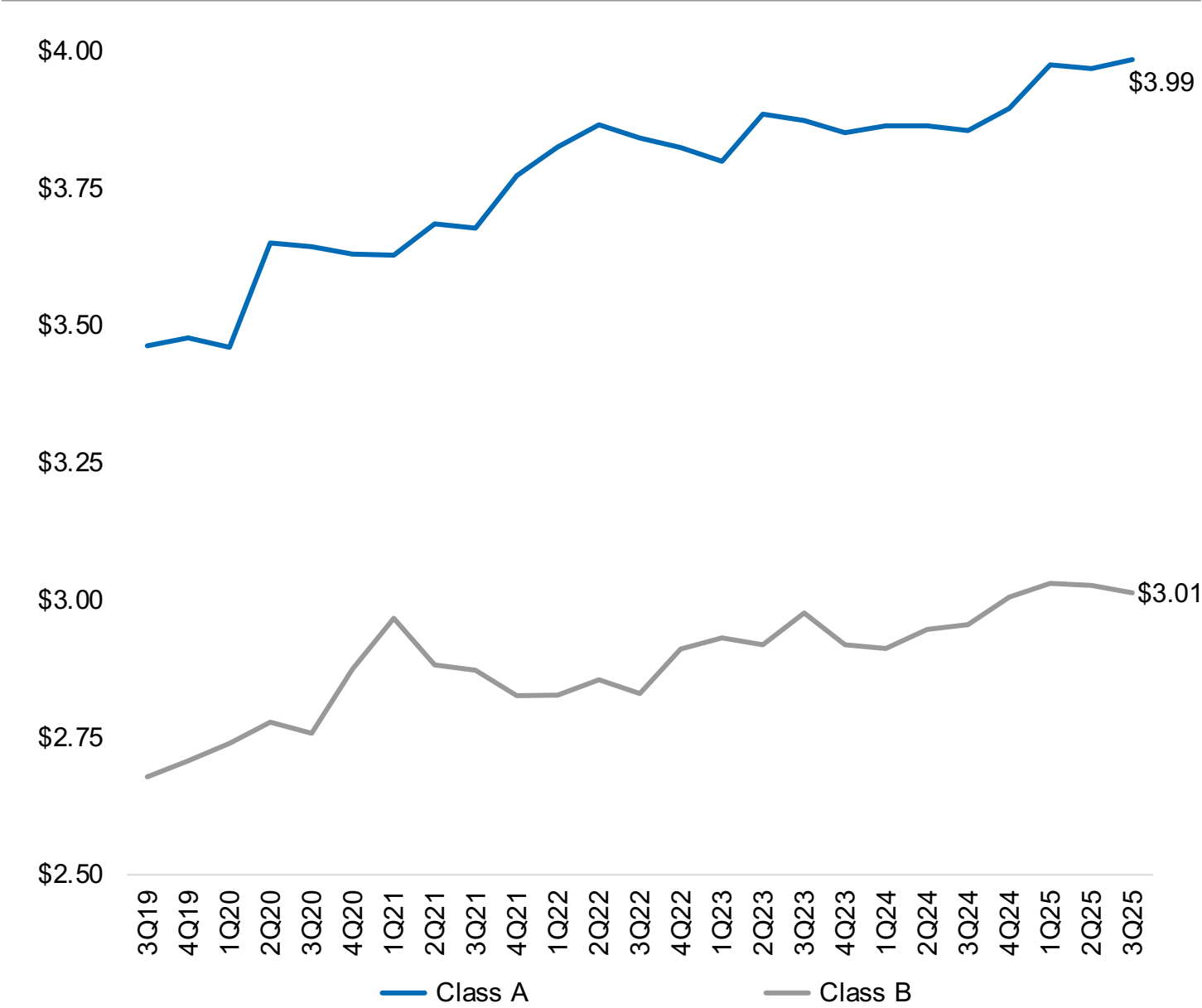


Source: Newmark Research, CoStar

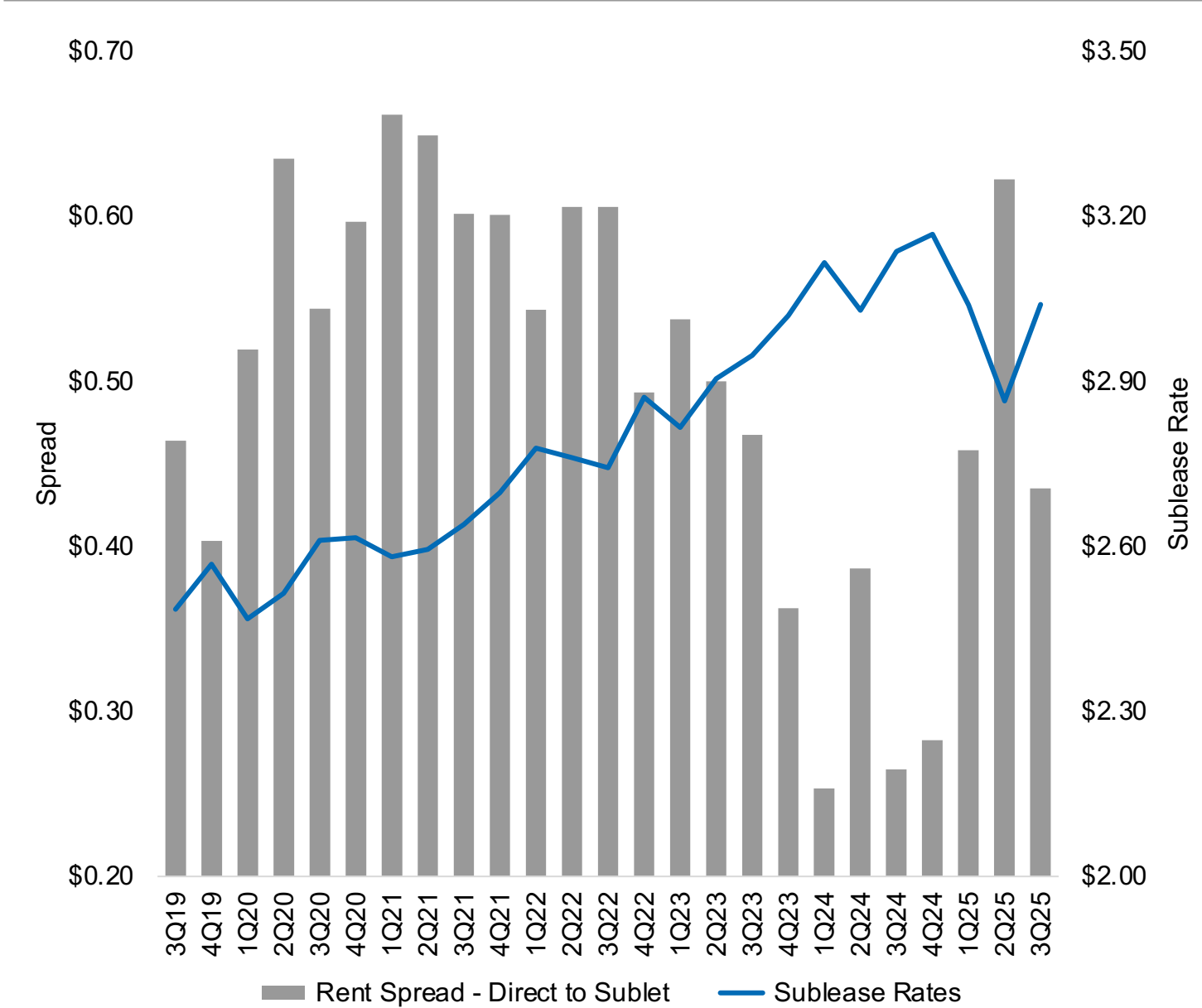
Class A and B Rents Maintain Spread

Class A 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 reassessment of space needs. The spread between sublease and direct rates has now stabilized in line with historical averages, and sublease space currently represents an average discount of \$0.44/SF to direct space.

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



Sublease Asking Rates



Source: Newmark Research, CoStar

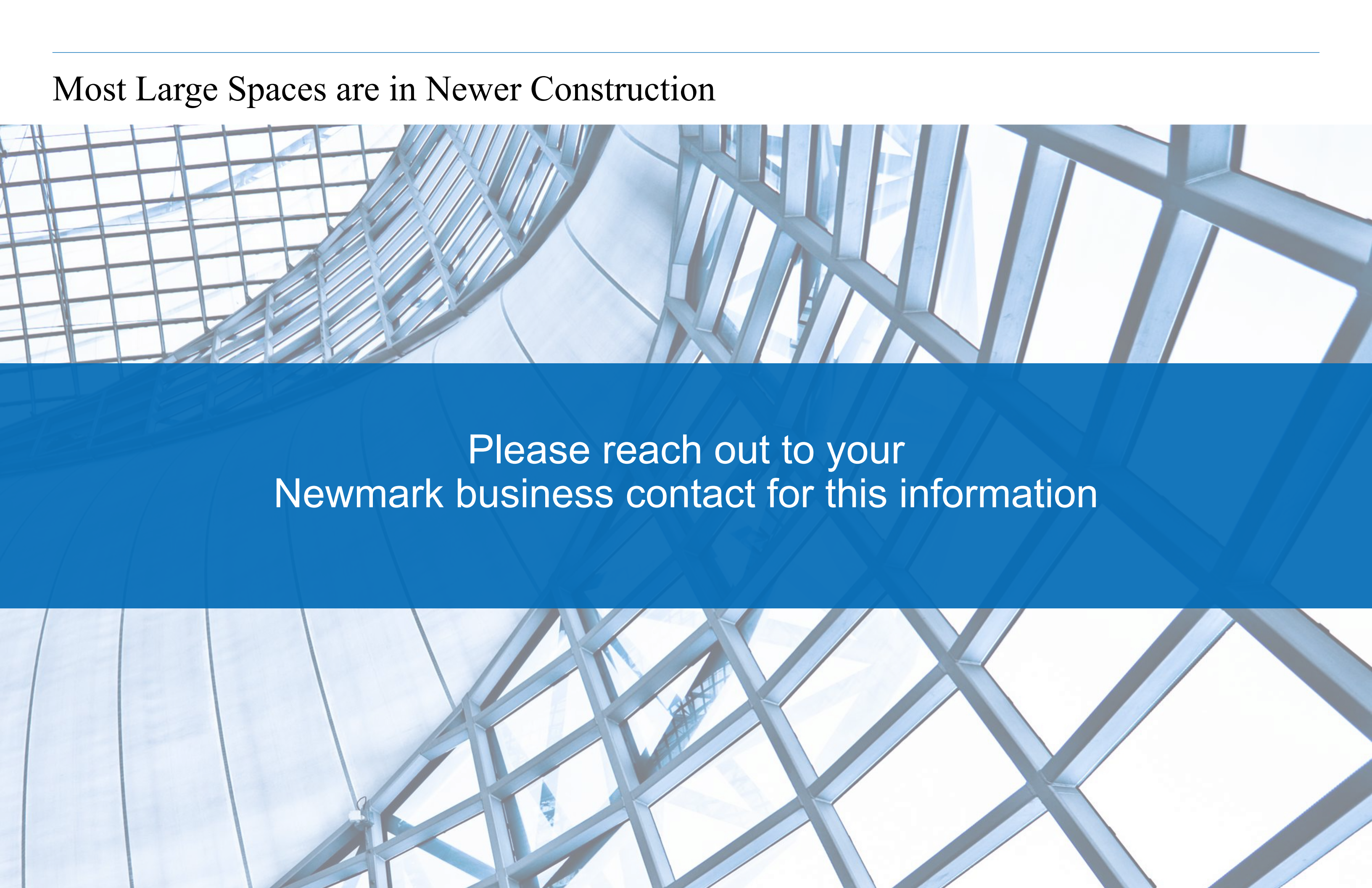
Notable Lease Transactions

Three of the largest leases of the quarter were made by government agencies as traditional office-using industries continued to slow. The largest deals signed by the private sector were both renewals and did not impact vacancy levels.

Notable 3Q25 Lease Transactions				
Tenant	Building(s)	Submarket	Type	Square Feet
County of San Diego	7947 Mission Center Ct	Mission Valley	Renewal	53,006
The county's Health & Human Services Agency renewed the lease for its space in Mission Valley.				
City of San Diego	9275 Sky Park Ct	Kearny Mesa	Expansion	44,275
The city expanded its lease for its Family Justice Center in Kearny Mesa.				
Hyundai Translead	8880 Rio San Diego Dr	Mission Valley	Renewal	35,369
Hyundai's shipping trailer division, Translead, renewed its lease in Mission Valley.				
GSA	9275 Sky Park Ct	Kearny Mesa	New Lease	34,535
An unspecified federal agency leased the top floor at Sky Park Office Plaza.				
ISC Group	1811 Aston Ave	Carlsbad	Renewal	28,903
Data center maintenance provider renewed its office space in Carlsbad.				

Source: Newmark Research

Most Large Spaces are in Newer Construction



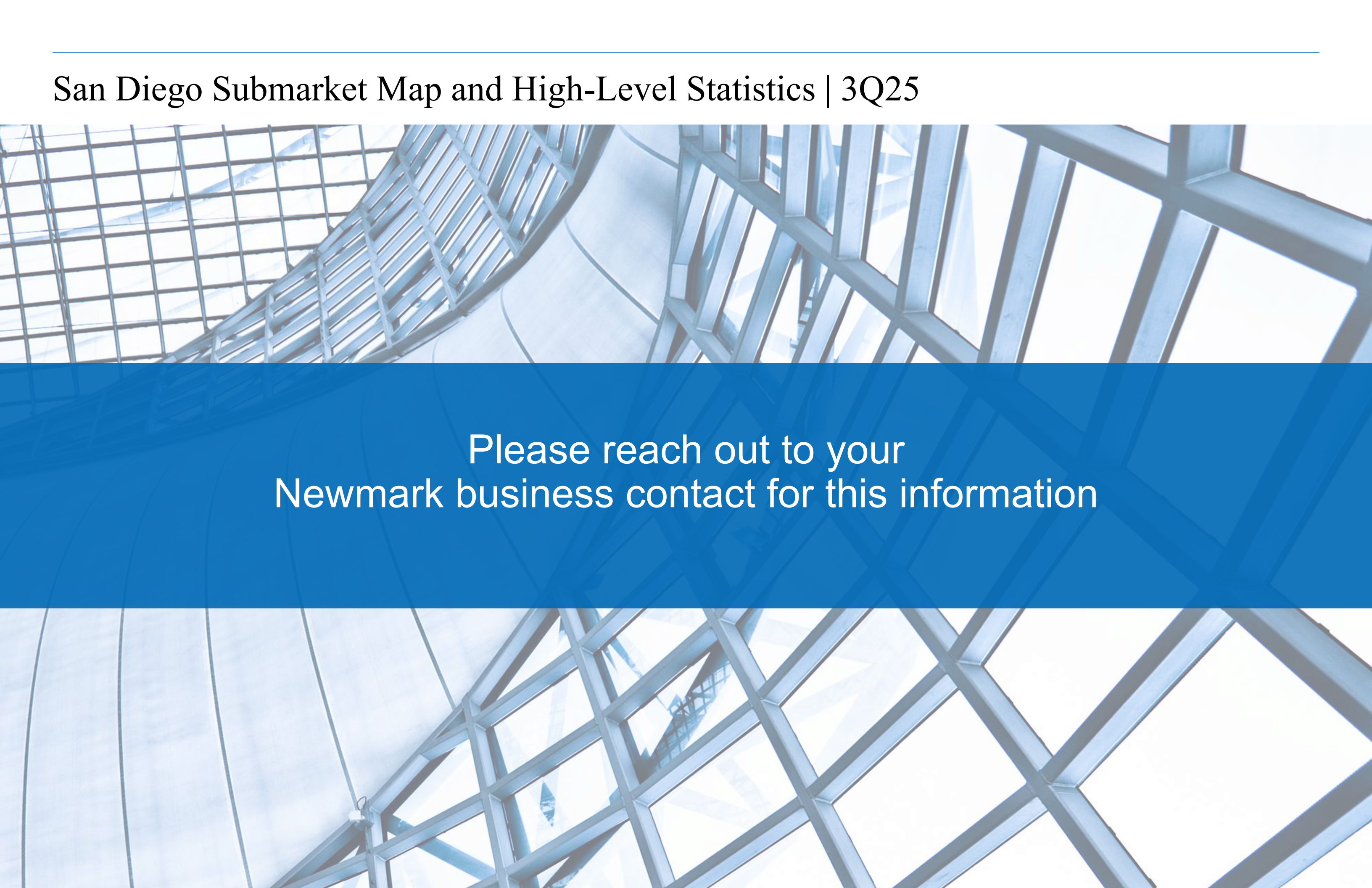
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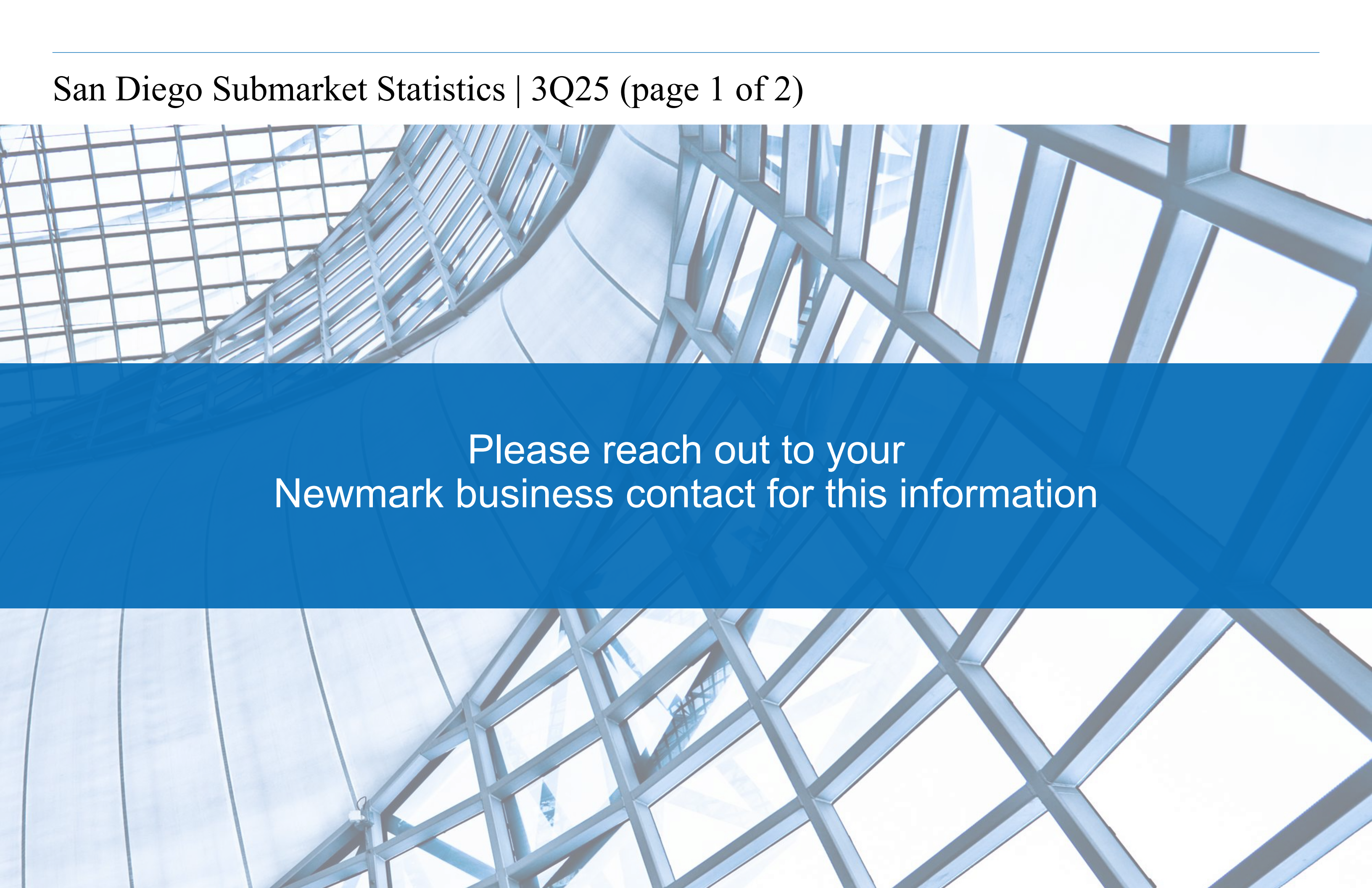
Submarkets



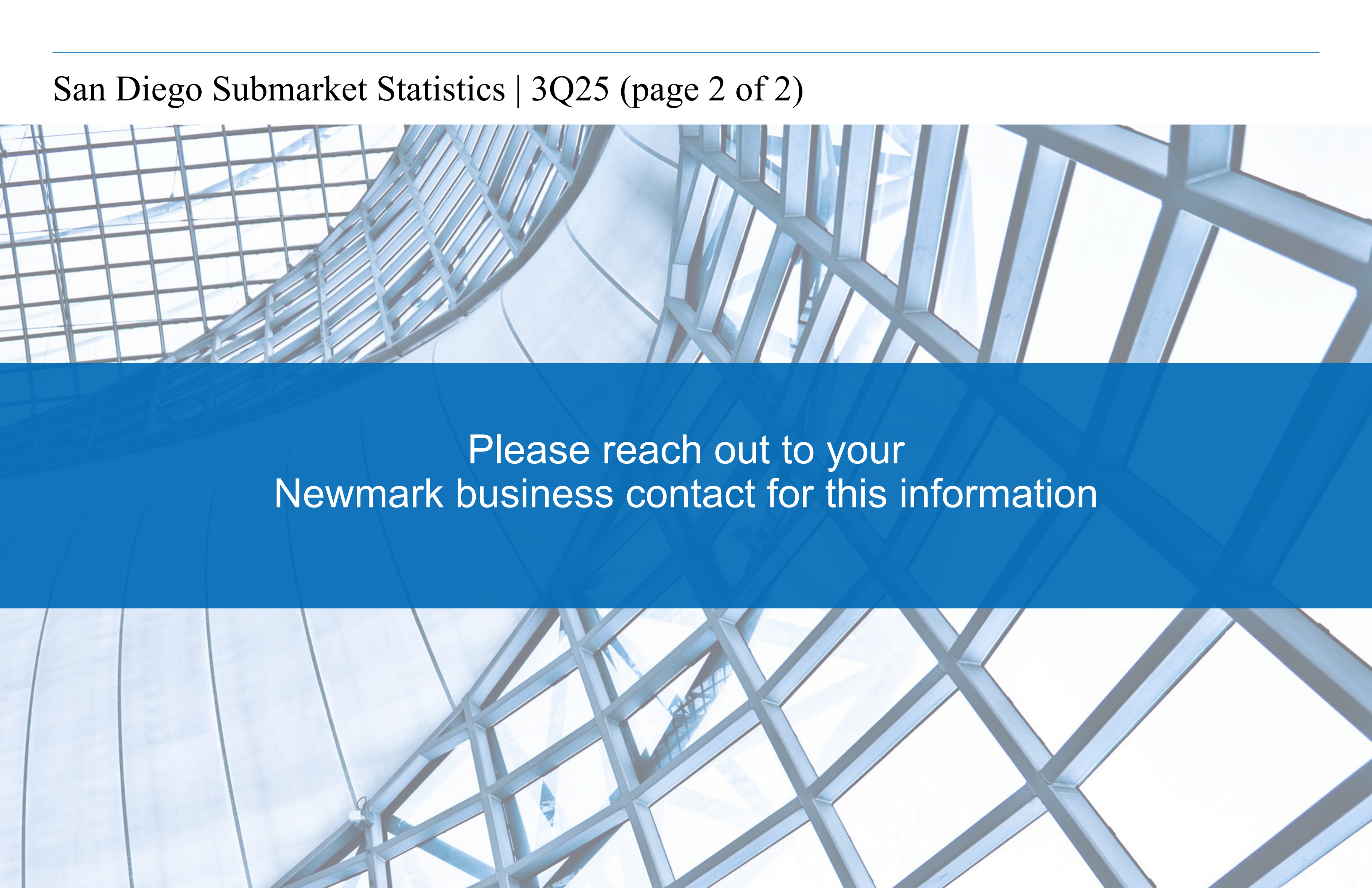
San Diego Submarket Map and High-Level Statistics | 3Q25



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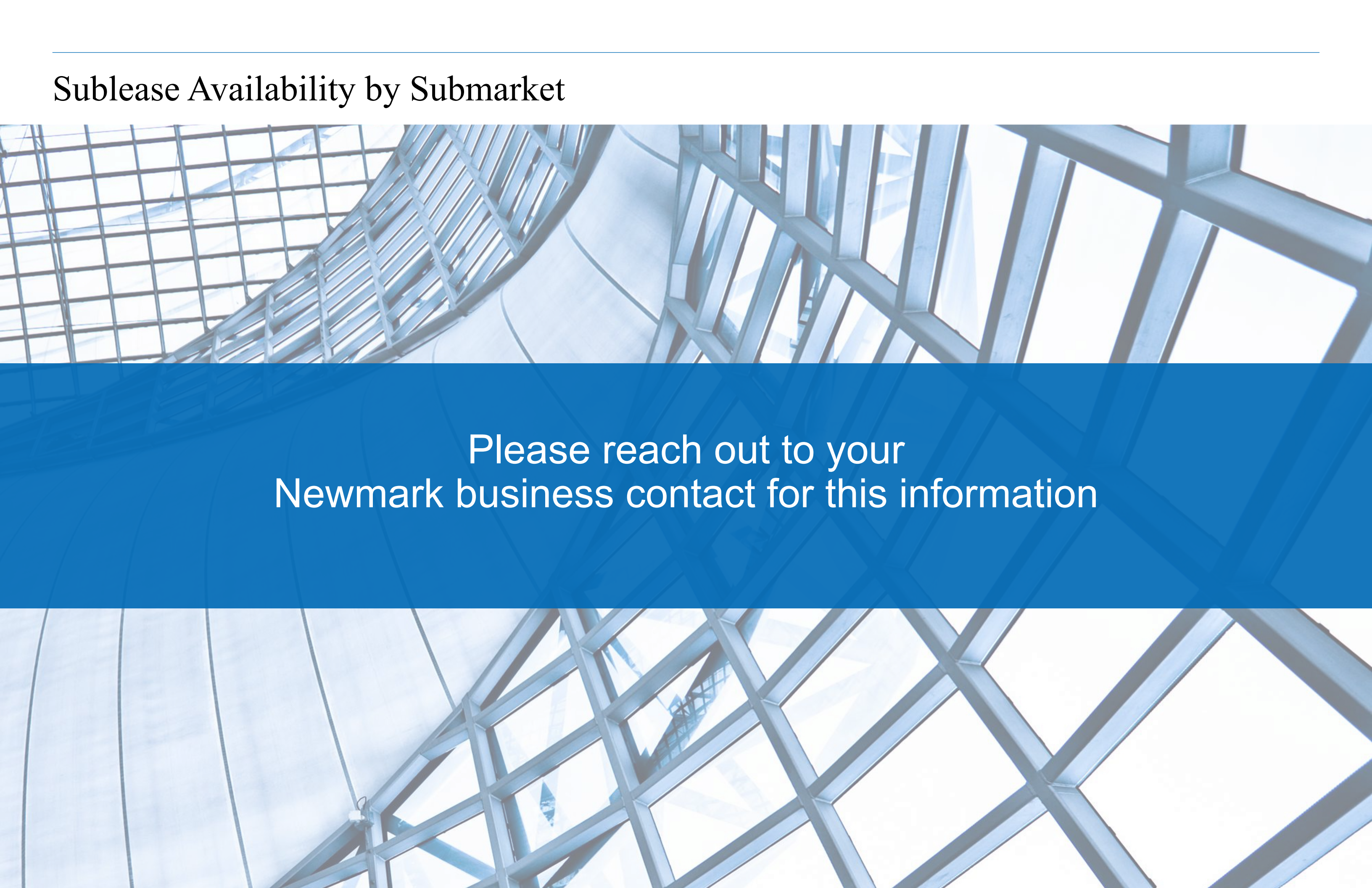


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Vacancy Highest in Downtown, Asking Rents Highest in Del Mar Heights

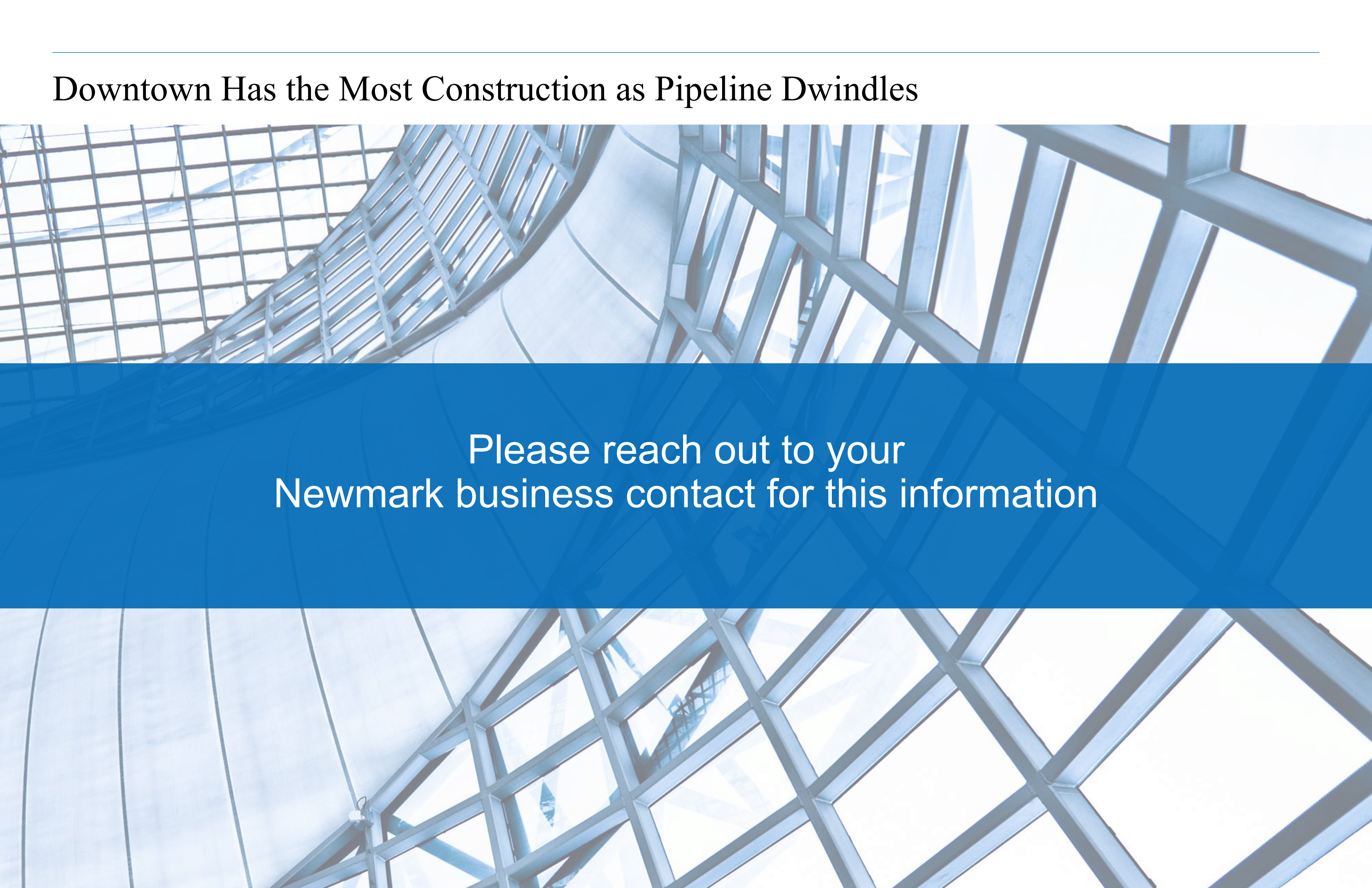
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Sublease Availability by Submarket



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Downtown Has the Most Construction as Pipeline Dwindles



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The Changing Downtown Market



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Capital Markets & Life Science



Office Sales Volume Has Fallen From Historical Average

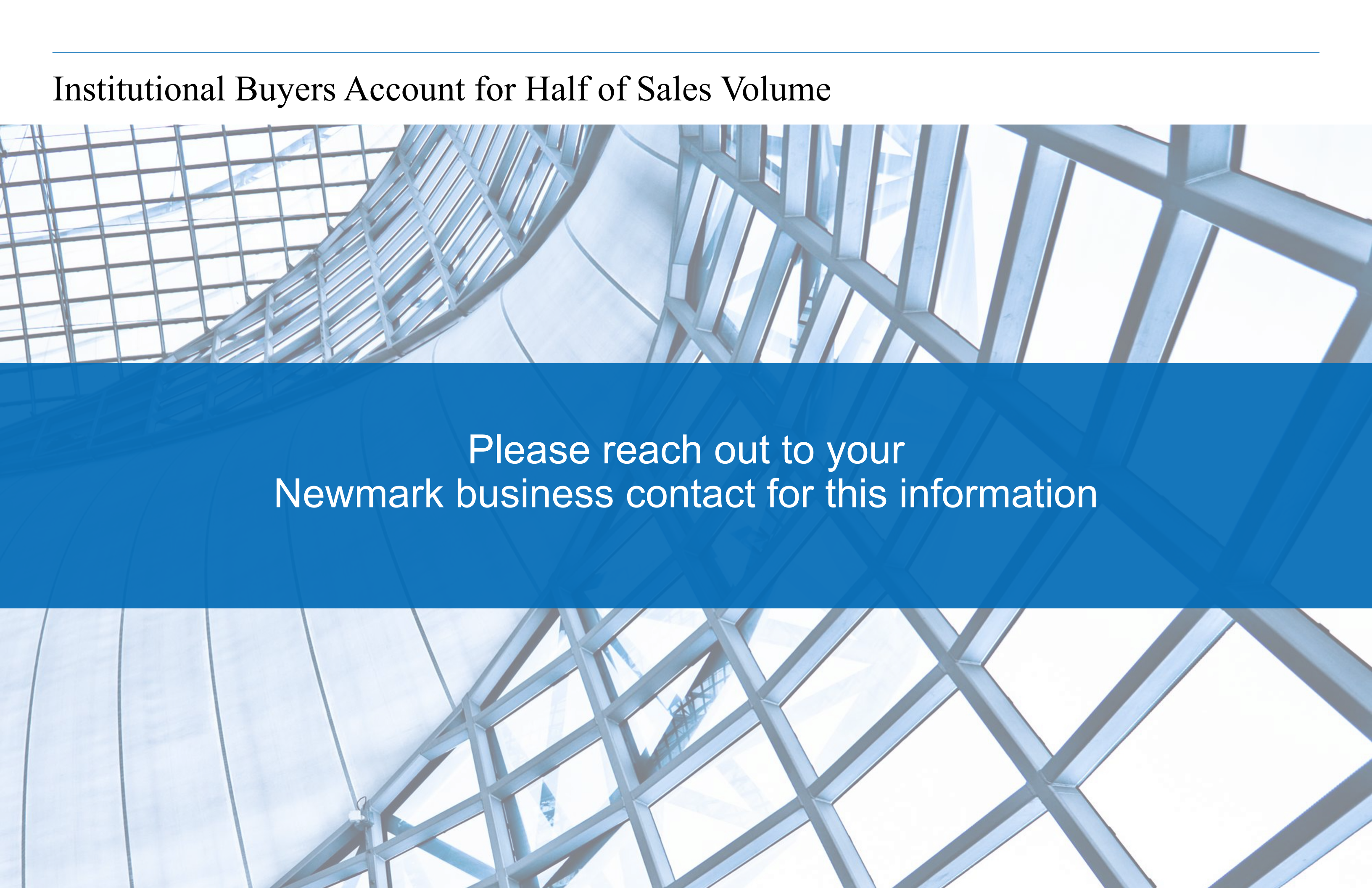
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Office Accounts for a Declining Share of Total Sales Volume



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Institutional Buyers Account for Half of Sales Volume



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The Price Per Square Foot Has Fallen as Cap Rates Rise

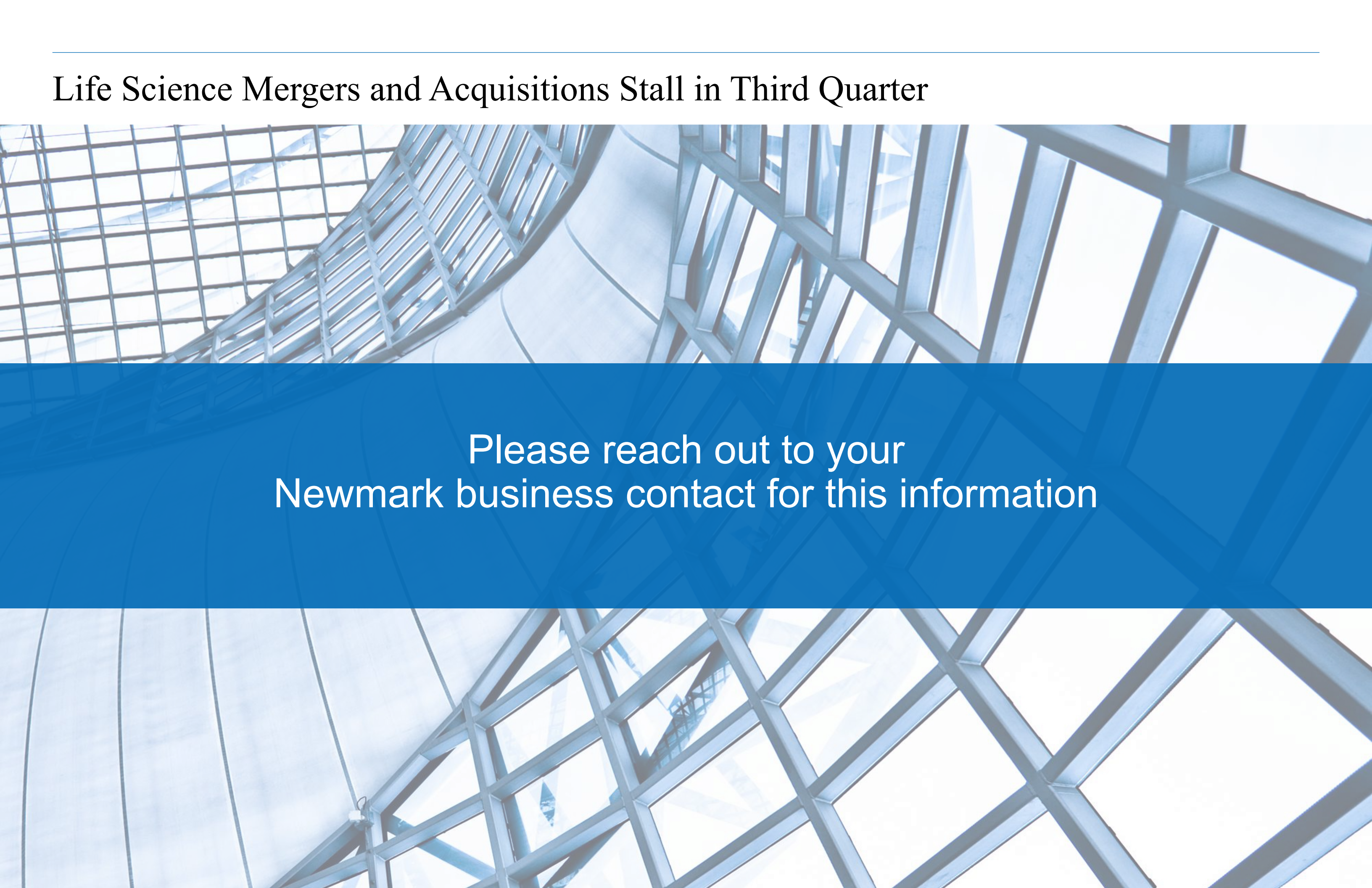
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Life Science Funding Recovers From Slow Start to the Year



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Life Science Mergers and Acquisitions Stall in Third Quarter



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