

NEWMARK

San Diego:
Office Market Overview

4Q25

Access the Expanded 4Q25 San Diego Office Market Overview



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The expanded version of this report includes:

- **Commentary on Real-Time Availability:** Insightful analysis on current availability in the marketplace.
- **Detailed Submarket Statistics:** A breakdown of rents, vacancy, absorption and construction in all of San Diego's office submarkets.
- **Capital Markets Sales Information:** In-depth examination of historical sales, active investors, price per square foot and cap rate trends, and how office compares to other property sectors.
- **Life Science Information:** Details on venture capital funding, post-IPO capital investment and notable mergers and acquisitions in San Diego's biotech space.

Extensive content across 30+ slides—a detailed presentation packed with useful office information and in-depth analysis.

San Diego Office Market Observations



Economy

- Local unemployment was 4.9% in September, higher than the national average of 4.4%. The federal government shutdown delayed the release of more recent employment data.
- While total nonfarm employment increased by 11,300 jobs over the past year, office-using employment decreased. Business and professional services lost 6,500 jobs, financial activities lost 1,400, and information lost 800 jobs.
- The consumer price index for all urban customers in the San Diego metro was up 4.0% annually as of November 2025, up from the 2.8% annual rate at the end of 2024.
- The Federal Reserve enacted one 25-basis-point cut in October and another in December, bringing the benchmark rate down to 3.50%-3.75%. Only one rate cut is expected in 2026.



Leasing Market Fundamentals

- The average monthly asking rate ticked up to \$3.50/SF FSG, up 1.4% over the past year.
- Net absorption was positive for the quarter, posting 452,619 SF of gains, closing out the year with 454,885 SF of positive annual net absorption.
- Total vacancy ticked up 10 bps from the previous quarter to 20.2%, up from 17.0% a year ago.
- One new project delivered, a 427K-SF build-to-suit project for Bristol Myers Squibb in UTC. Current construction levels have fallen to 942K SF, the lowest since 2018.
- Sublease availability fell to 2.1 MSF, down from the high of 3.2 MSF in the first quarter of 2024. Most removed sublease listings were withdrawn from the market rather than leased.



Major Transactions

- The largest lease transactions of the quarter were renewals: the San Diego County Public Defender's office renewed its 100,900-SF space in Downtown and law firm Jones Day renewed its 68,000-SF space in UTC.
- Saca Development purchased 600 W Broadway in Downtown from The Irvine Company for \$120.0 million, marking the last of Irvine Company's Downtown holdings to be sold off.
- San Diego continues to be an active target for corporate life science mergers and acquisitions: pharmaceutical giant Merck announced it is acquiring local biotech Cidara Therapeutics for \$9.2 billion and multinational pharmaceutical Novartis will acquire Avidity Biosciences for \$12.0 billion, the largest corporate acquisition in San Diego in more than 10 years.



Outlook

- The weakening labor market has dragged on the demand for office space and will continue to mitigate leasing activity, limiting the amount of space the market can absorb.
- The market's high vacancy and high asking rents are at odds with one another, which will prompt landlords to offer generous concession packages to secure tenants.
- The Irvine Company's exit from the Downtown submarket, where it was once the largest landlord, is now complete. The sale of its Downtown assets – at a considerable loss to its cost basis from 20 years ago – indicates the submarket is in a moment of transition to more affordable office space and more residential use.
- New speculative developments have all but ceased as the market grapples with high vacancy, and conversions of obsolete office properties means that existing inventory may shrink.

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Economy

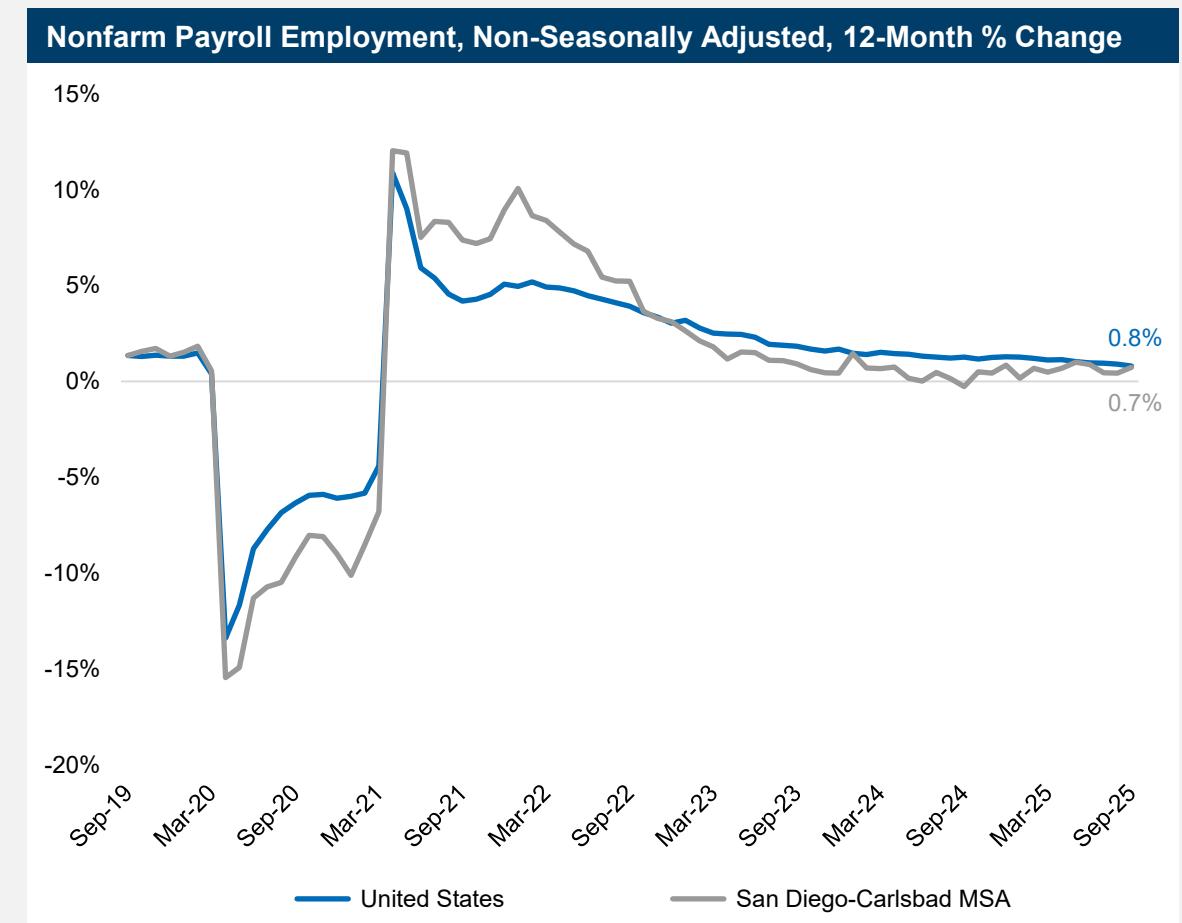
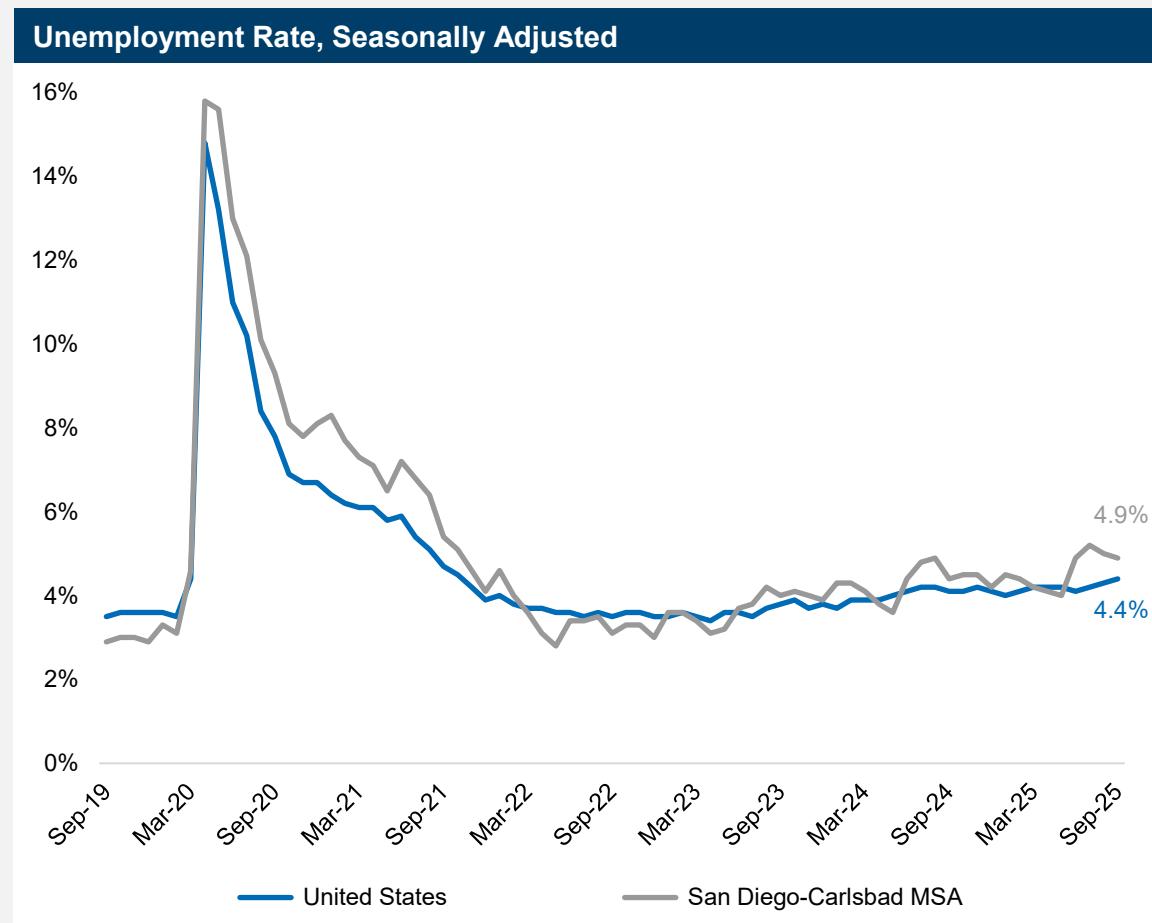
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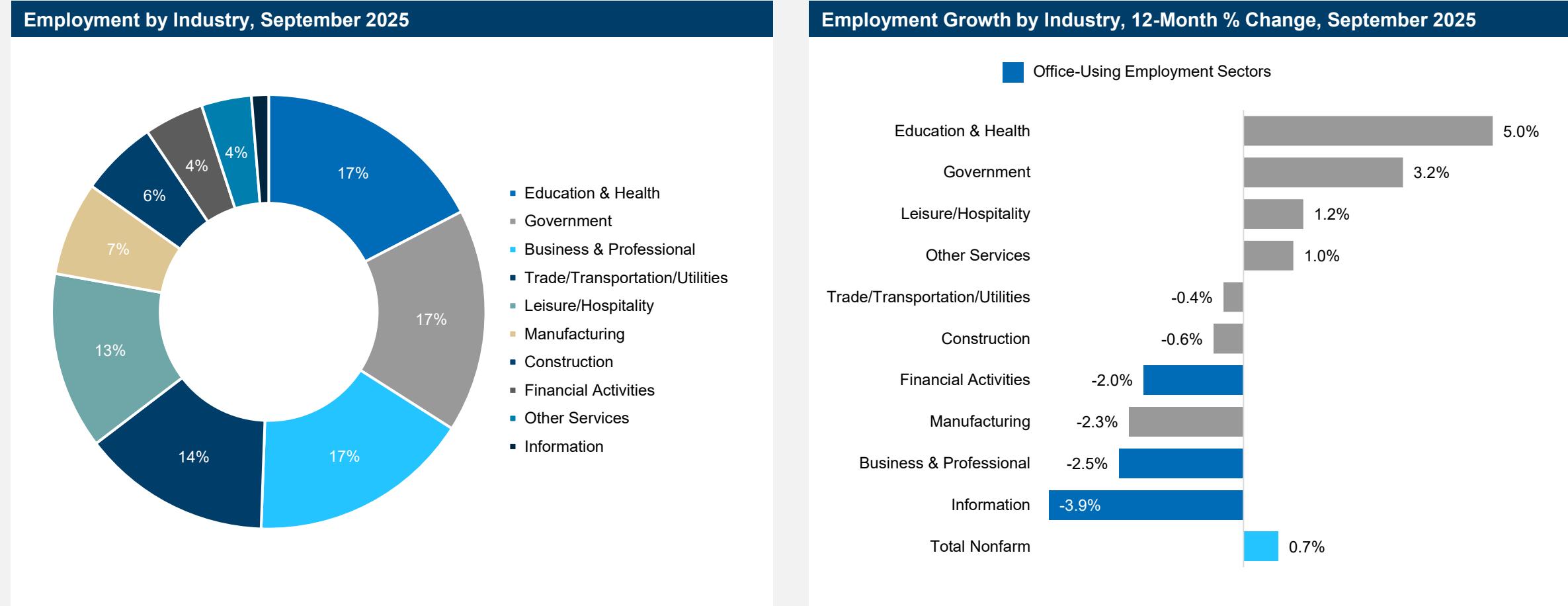
Unemployment Elevated as Job Growth Slows

The federal government shutdown impacted the collection of jobs data, cancelling data collection for October and delaying November's release. The local unemployment rate was 4.9% in September 2025, up 50 basis points over the past year. The local and national unemployment rates were both higher than any year since 2021. During the past year total nonfarm employment posted minimal gains: employers reported an additional 11,300 jobs, representing growth of 0.7%, which slightly lagged the national average.



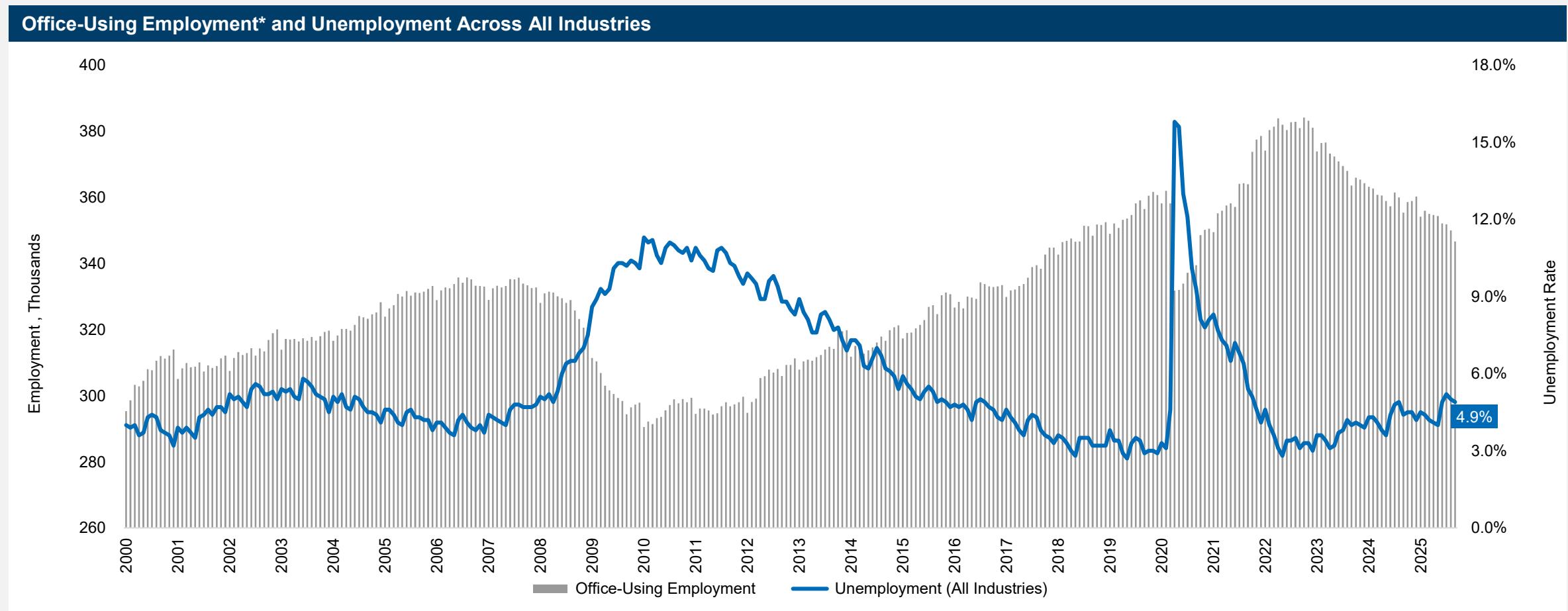
Business & Professional Services is No Longer the Largest Employment Sector

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 the education and health and government sectors have been growing rapidly - in March 2025, education and health surpassed business and professional to become the region's largest employment sector and in September 2025 government jobs became the second-largest employment sector. Office-using jobs in the smaller financial activities and information sectors have also been shrinking.



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 800 jobs over the past year, financial activities lost 1,400 jobs, and business and professional shed 6,500 jobs. By comparison, education and health had the best performance over the past year, adding 12,900 jobs, while government agencies added 8,000 jobs.



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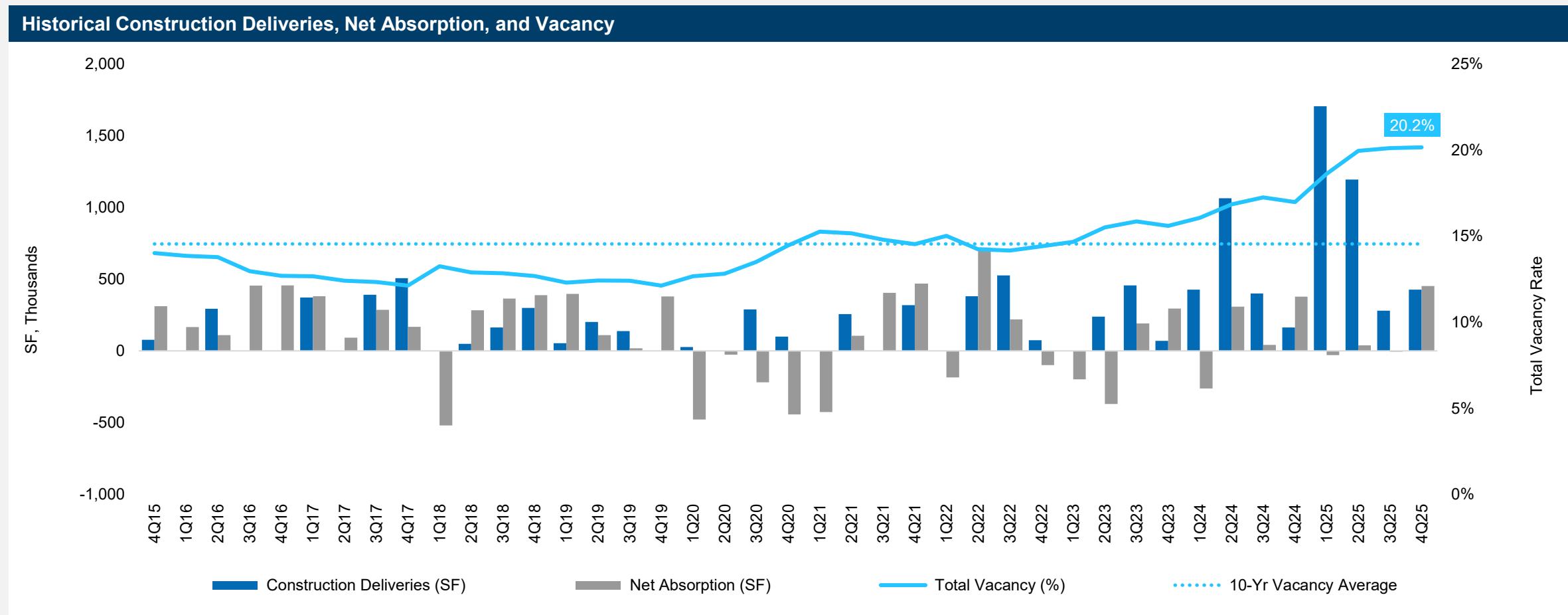
Market Fundamentals

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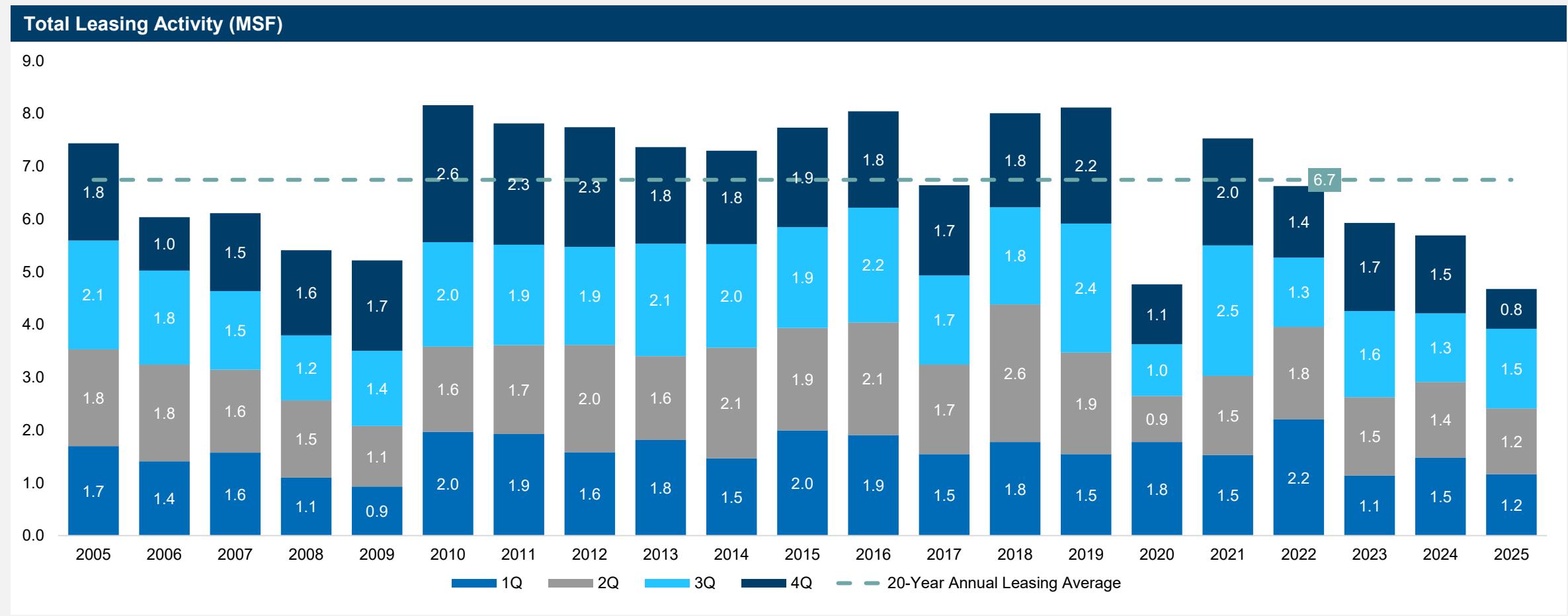
Vacancy Climbed After Large Deliveries

2025 saw 3.6 MSF in construction deliveries, well above the 2.1 MSF delivered in 2024 and the 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 fourth quarter. Deliveries were elevated due to large life science developments in the Downtown and Sorrento Mesa submarkets.



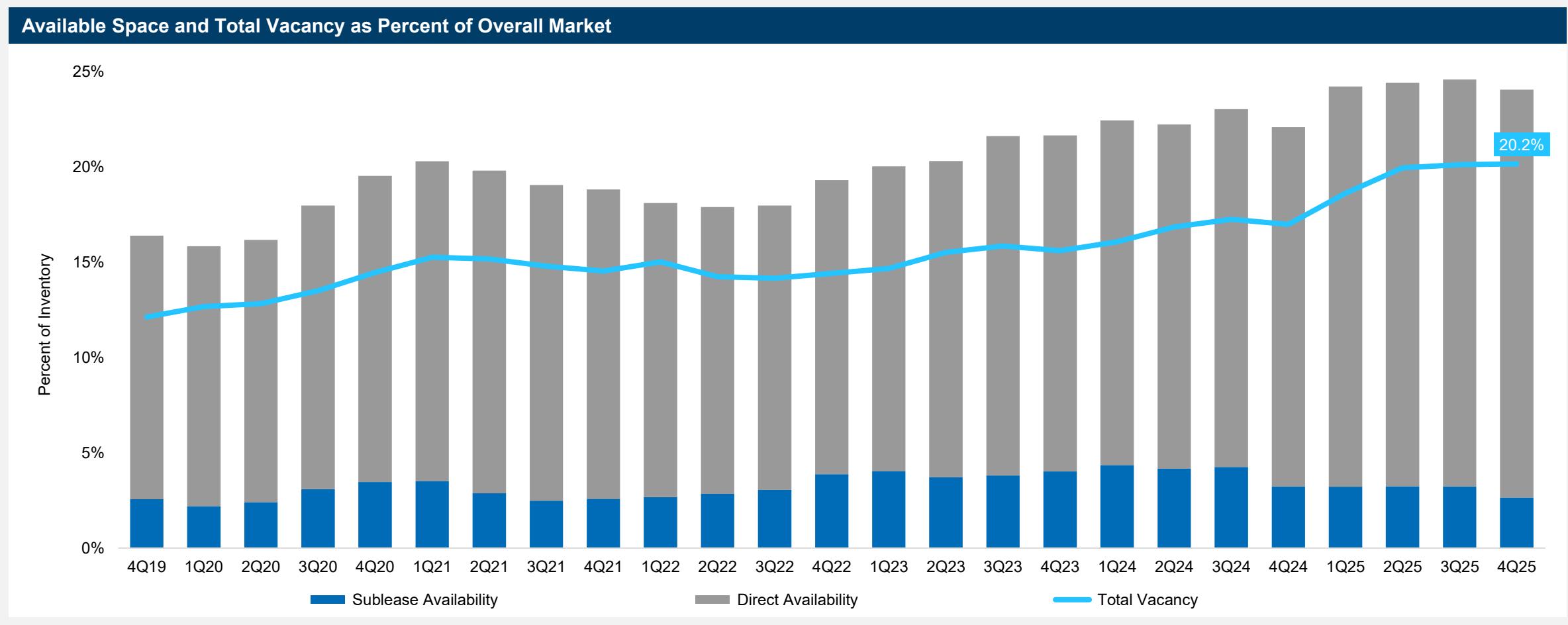
Leasing Activity Declined in the Fourth Quarter

Leasing activity has lagged the historical annual average of 6.7 MSF since 2021 and has steadily decreased each year. 2025 saw only 4.7 MSF in leasing activity, lower than even 2009, during the Global Financial Crisis, largely due to slow activity during the fourth quarter.



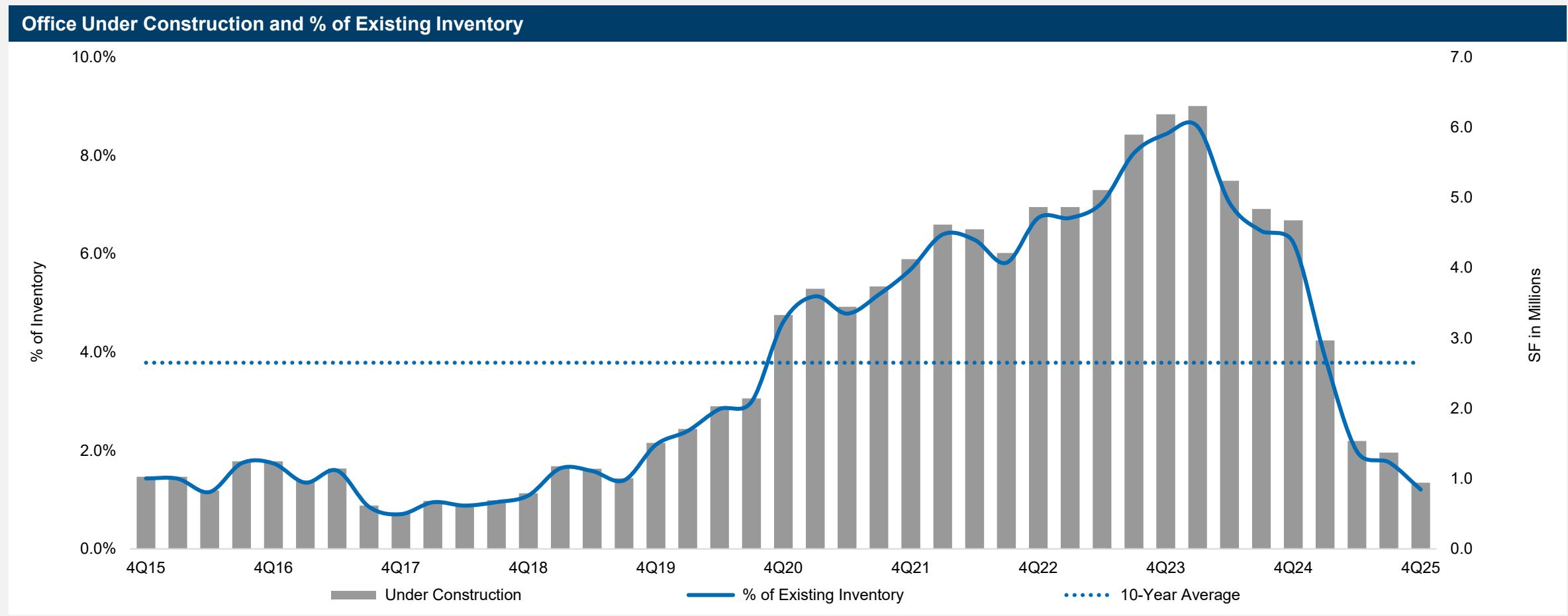
Vacancy and Availability Remain Elevated

Vacancy climbed to 20.2% from 17.0% 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.



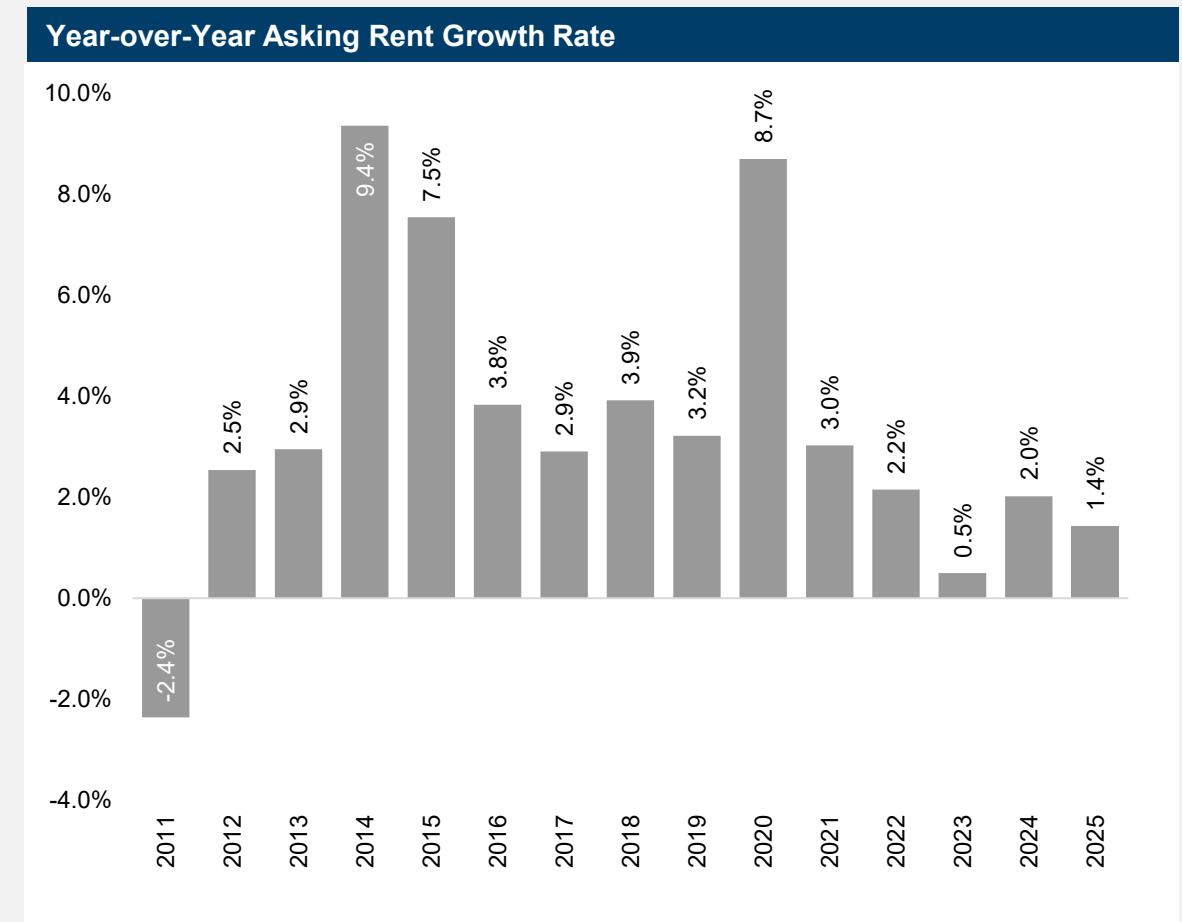
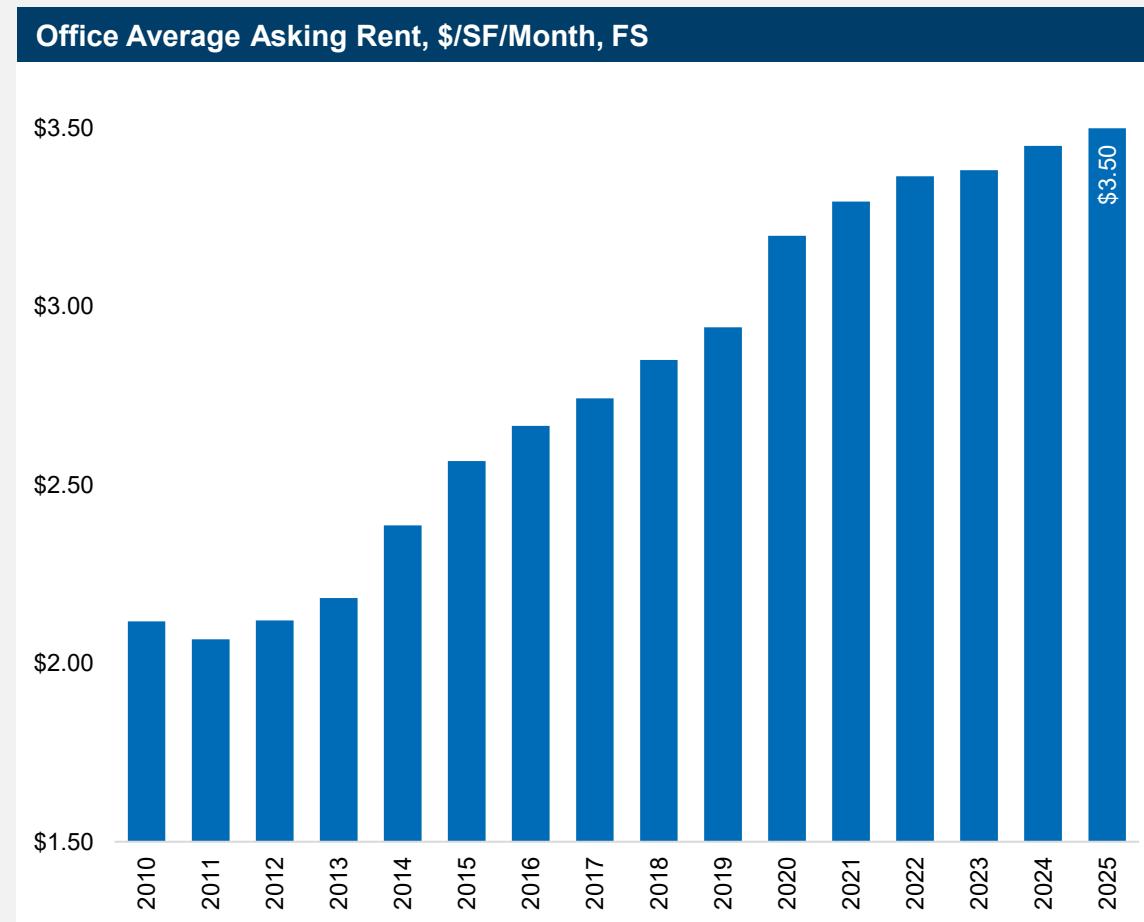
Construction Levels Continue to Retreat from Record High

Office construction boomed during the recovery and is now quickly tapering off as market conditions soften. There are 942K SF in projects under construction, down from the all-time high of 6.3 MSF set in the first quarter of 2024. Despite massive deliveries this year, 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, leaving its future uncertain.



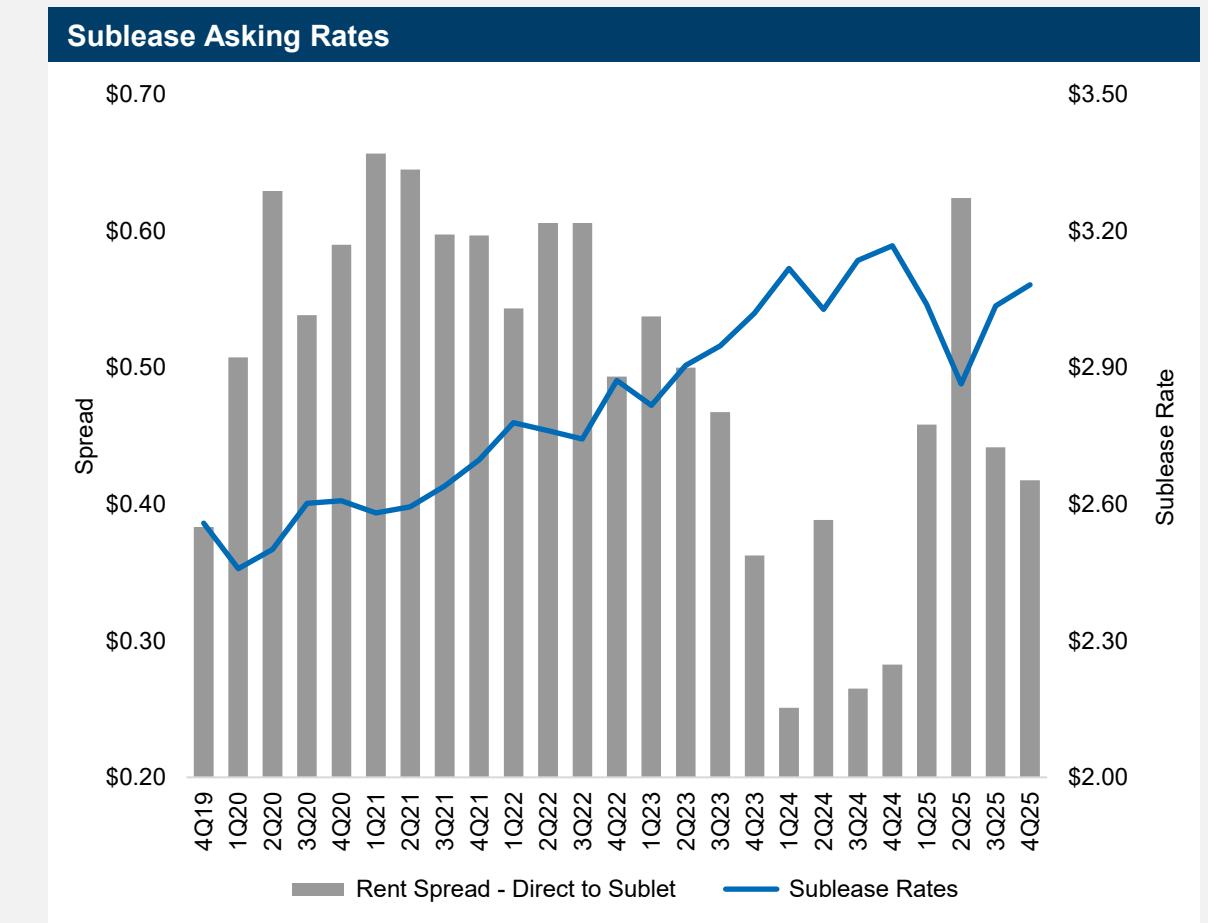
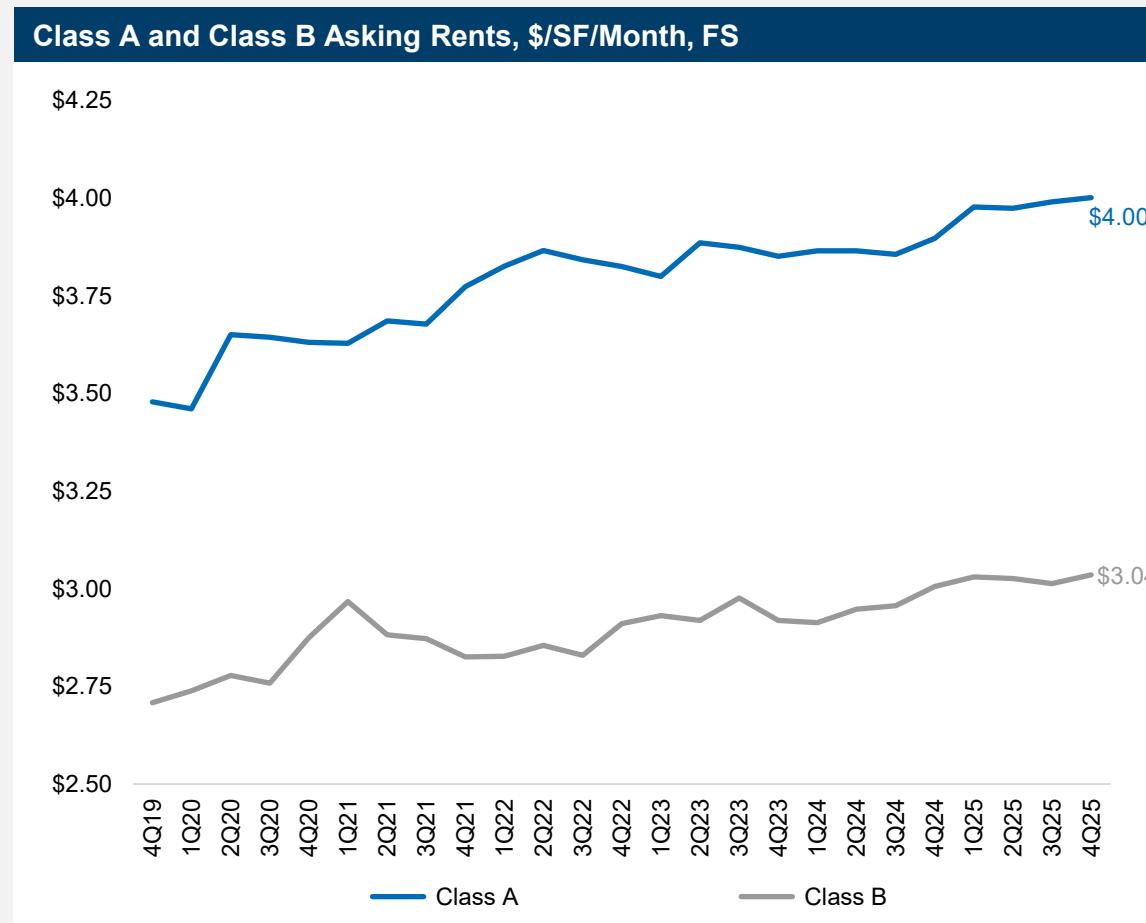
Rent Growth Driven by Newer Spaces But Begins to Stall

In the face of climbing vacancy rates, the average asking rate still managed to climb to an all-time high of \$3.50/SF, although this represented an annual increase of only 1.4%. While rents have continued to increase modestly, annual rent growth has lagged the rate of inflation every year since 2021.



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 \$0.42/SF compared to direct space.



This Quarter's Notable Leases Were Diverse

The largest deals of the quarter were for existing locations, either renewals or expansions. The Public Defender's office renewed its space in Downtown, law firm Jones Day renewed its offices in UTC, and biotech company Viking Therapeutics expanded to a full floor in Sorrento Mesa.

Notable 4Q25 Lease Transactions				
Tenant	Building(s)	Submarket	Lease Type	Square Feet
San Diego County Public Defender	451 A St	Downtown	Renewal	100,906
<i>The County's Office of the Public Defender renewed its space on multiple floors for an additional eight years.</i>				
Jones Day	4655 Executive Dr	UTC	Renewal	68,391
<i>Law firm renewed its offices on three floors at The Irvine Company's One La Jolla project.</i>				
Viking Therapeutics	9920 Pacific Heights Blvd	Sorrento Mesa	Expansion	25,062
<i>Biotech company expanded to a full floor from existing space in the building.</i>				
PeopleConnect	350 10th Ave	Downtown	Direct	17,470
<i>Information services company leased an entire floor at DiamondView Tower.</i>				
Wells Fargo Advisors	888 Prospect St	La Jolla	Renewal	16,302
<i>Financial advisors renewed office location in the village of La Jolla.</i>				

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