

San Diego

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Leasing activity continues to decline in the San Diego office market

The San Diego office market experienced a decline in leasing activity for the third consecutive quarter, accompanied by a 1.8% drop in office-using employment during the second quarter. Leasing activity fell by 8.2% from the previous quarter to 902,056 square feet (sf), reflecting a 4.3% year over year decrease. While San Diego's unemployment rate improved slightly from the previous quarter, office leasing activity continues to be impacted by the downturn in the tech and healthcare sectors. Notably, UC San Diego Health and Sharp Healthcare recently announced layoffs due to financial challenges. The unemployment rate stood at 4.0% in May 2025, an increase from 3.6% one year ago.

Total availability rate decreases to 21.4%

Although leasing activity declined, total availability fell by 70 basis points (bps) in the second quarter yet remains 40 bps higher than a year ago. The overall average asking rental rates ended the quarter at \$3.67 per square foot (psf) per month, a 6.1% increase year over year as several new Class A projects have been added to the market with limited pre-leased space. Despite the increase in average rents, concessions packages remain substantial, as many landlords continue to give free rent and generous tenant improvement allowances to attract tenants. Net effective rents are expected to remain relatively stable given the ongoing delivery of new Class A product. The leasing activity is anticipated to remain strongly tenant-favorable, driven by muted demand and elevated availability levels.

Expect market activity to remain expiration-driven

With the life sciences, technology and healthcare sectors still undergoing corrections, office leasing activity is expected to remain largely expiration-driven through the second half of 2025. Although some employers have recently issued return-to-office mandates, many occupiers remain cautious, deferring long-term real estate decisions in an effort to control costs. As a result, mid-sized lease renewals are expected to constitute leasing demand in the near term.

Key Statistics

	Q2 2024	Q2 2025	Y-O-Y
Inventory*	64.3 msf	65.0 msf	+0.7 msf
Availability Rate	21.0%	21.4%	+40 bps
Asking Rental Rate	\$3.46	\$3.67	+6.3%
Class A Asking Rental Rate	\$3.82	\$4.18	+9.4%
Quarterly Leasing Activity	0.9 msf	0.9 msf	0.0 msf
Available Sublease Space	2.3 msf	1.7 msf	-0.6 msf

*Inventory includes office buildings over 20,000 sf and greater.

Outlook

01

Availability levels are expected remain historically high amidst the recent delivery of large speculative projects mostly concentrated in Downtown

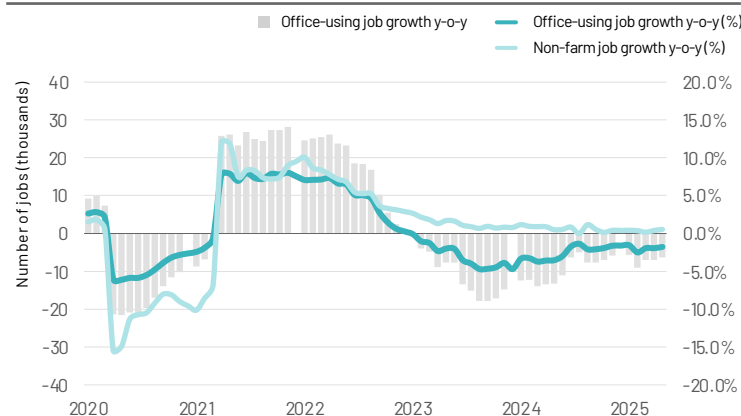
02

Leasing activity is forecasted to remain near the 5-year quarterly average as demand continues to be driven by lease expirations rather than new growth

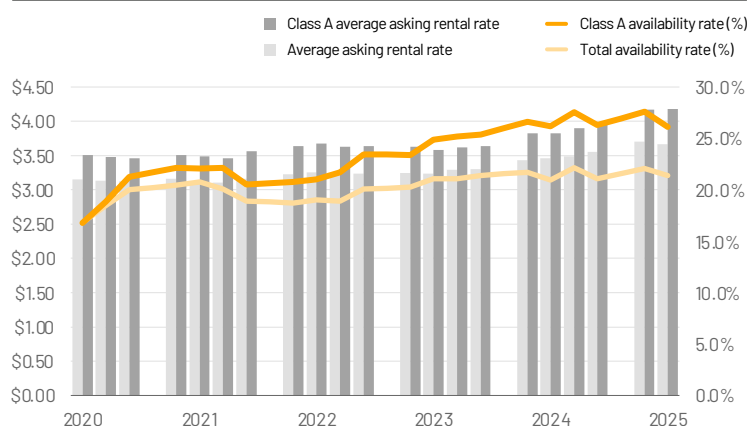
03

Tenant continue to be attracted to trophy assets and amenity-rich buildings as flight to quality is expected to persist

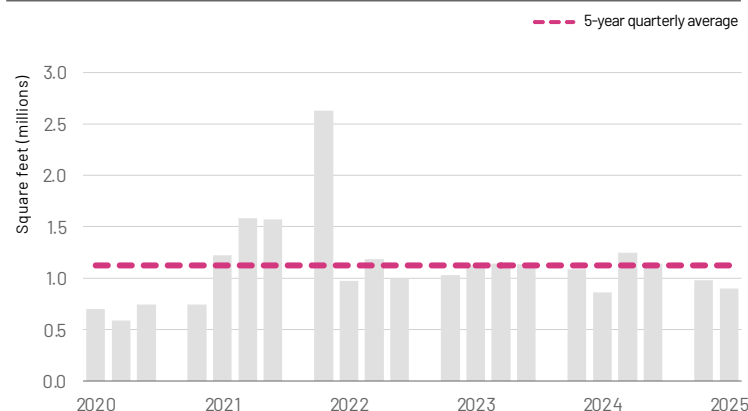
Office-using Employment Growth



Asking Rent and Availability



Leasing Activity



Top Transactions

*Trophy Building

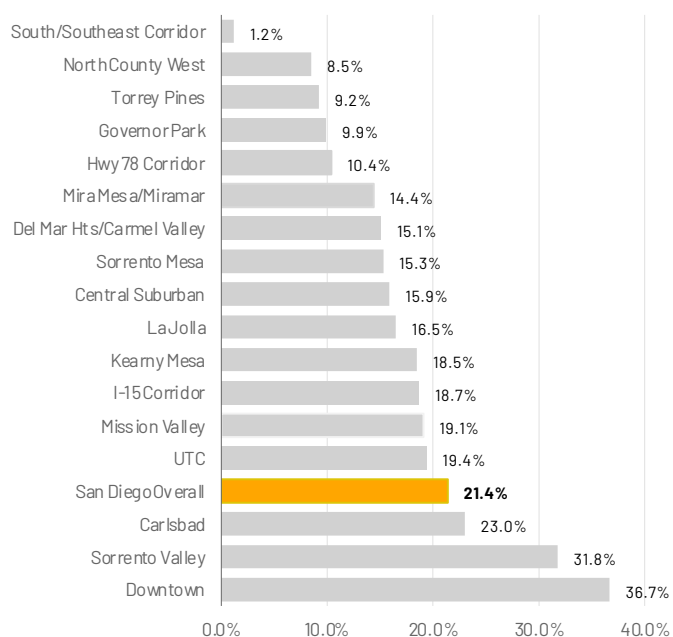
**Sublease

Source: Savills Research

TENANT	INDUSTRY	SUBMARKET	ADDRESS	SIZE (SF)	TRANSACTION TYPE
County of San Diego	Government	South/Southeast Corridor	401 Mile of Cars Way	84,987	Relocation
Wilson Sonsini Goodrich & Rosati	Legal Services	Del Mar Heights/Carmel Valley	11988 El Camino Real	44,718	Relocation
J. Craig Venter Institute	Pharmaceuticals	Downtown	950 Waterfront Place	42,726	Relocation
Systems Planning & Analysis	Technology, Advertising, Media & Information	Mission Valley	350 Camino de la Reina	35,344	Relocation
Clearpoint Neuro	Pharmaceuticals	Torrey Pines	10555 Science Center Drive	30,131	Relocation
ColRich	Real Estate	Downtown	2100 Kettner Boulevard	23,844	Relocation
Simplicity Financial Holdings	Financial Services & Insurance	Del Mar Heights/Carmel Valley	11512 El Camino Real	20,518	New Location
Littler Mendelson	Legal Services	Downtown	501 W Broadway	17,705	Renewal
SYSTRA International Bridge Technology	Technology, Advertising, Media & Information	Kearny Mesa	9325 Sky Park Court	12,219	Renewal & Expansion
Compass Real Estate	Real Estate	Mission Valley	8889 Rio San Diego Drive	12,193	Renewal & Expansion

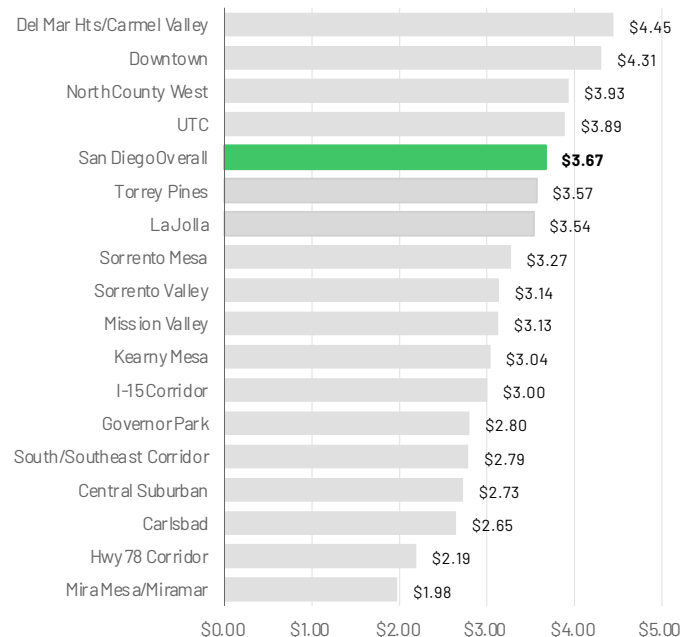
Availability Rate Comparison (%)

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Rental Rate Comparison (\$/sf)

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San Diego Q2 2025 - Office

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Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents per square foot. Statistics are calculated using both direct and sublease information. Current and historical availability and rent data are subject to change due to changes in inventory.

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