SD Q2 26

SECOND QUARTER 2026 MARKET REPORT
SAN DIEGO OFFICE

Voit REAL ESTATE SERVICES

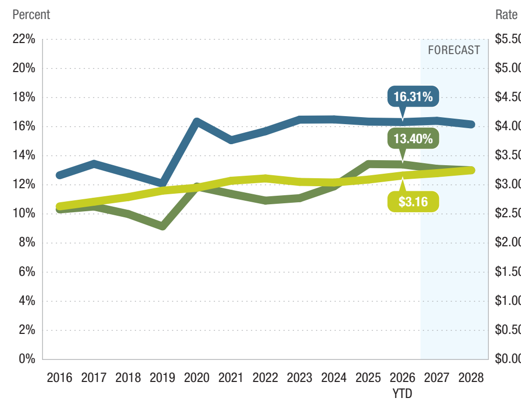
OVERVIEW. Leasing volume remains well below pre-Covid levels, and this correlates directly to the overall market vacancy rate remaining nearly 50% higher than pre-Covid levels. Multiple office owners have thrown in the towel, deciding to sell buildings at a steep discount in recent quarters. But net absorption and overall vacancy figures have improved in the first two quarters of 2026, pointing to a possible stabilization of the market.

VACANCY & AVAILABILITY. Direct/sublease space (unoccupied) finished Q2 2026 at 13.4%, effectively unchanged from the previous quarter, but a moderate decrease of 27 basis points from the level of a year ago. Available office space being marketed (regardless of occupancy status) was 16.31% of the county's inventory at the end of Q2. The availability rate has remained relatively stable since the end of 2023. The increase in the vacancy while availability remains stable can be contributed to office buildings under construction coming to completion. Available space is counted as available but not vacant during construction, and after delivery the available space gets counted as vacant. Among the county's major submarkets (minimum of 5 MSF of inventory), Kearny Mesa had the lowest availability, at 10.95%, while the availability rate in Downtown is 30.59%. Sublease availability across the county finished Q2 at 1.83 MSF, pulling back for three consecutive quarters.

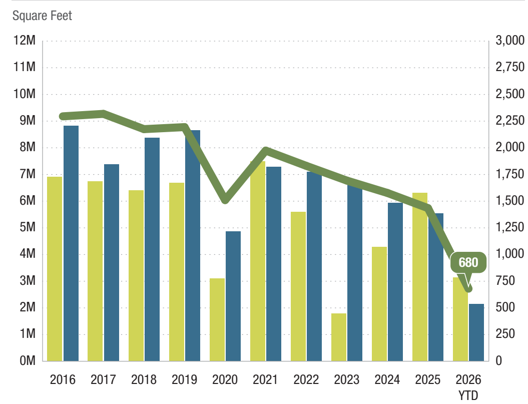
LEASE RATES. The average asking full-service-gross (FSG) lease rate per square foot per month in San Diego County was $3.16 at the end of Q2 2026, a 1.6% increase from Q2 2025's rate of $3.11. The average asking rate for San Diego office is being bolstered by the substantial amount of new office deliveries in recent years. New office space coming to the market pushes the average rental rate higher. However, effective rental rates are down considerably from the levels of two years ago. Landlords are offering significant concessions to woo prospective tenants, such as first-year promotional teaser rates and free rent. The average effective rental rate is clearly seeing the impact of decreased leasing activity, increased availability, and competition from sublease office space. Landlords with less-desirable office buildings, or in lower-demand submarkets, are realizing they need to be more aggressive.

TRANSACTION ACTIVITY. 974,769 SF of office space leased in Q2 2026 from 288 transactions. Over the past ten quarters the market has seen an average of 350 leases per quarter. This compares with an average of 431 leases in the preceding ten quarters. Conversely, the sales market has opened up. The San Diego office market is on pace for a second consecutive year with more than $1 billion in sales, after averaging $642 million in sales over the previous two years. The office sales market has been thawing out due in large part to companies such as The Irvine Company and Regent Properties deciding to cut their losses and exit their positions in select San Diego office holdings. Core stabilized office property sales have been few and far between in the current market. The five largest sales of Q2 included an acquisition by a local non-profit organization, a condo conversion purchase, a purchase for redevelopment, and an owner-user purchase.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

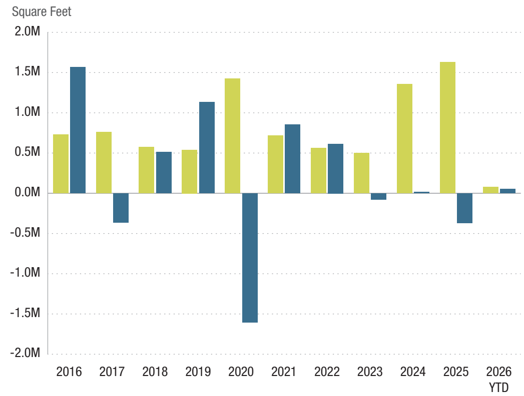
	Change Over Last Quarter	Q2 2026	Q1 2026	Q2 2025	% Change Over Last Year
Vacancy Rate	FLAT	13.40%	13.45%	13.13%	2.07%
Availability Rate	UP	16.31%	16.18%	16.41%	(0.59%)
Average Asking Lease Rate	UP	$3.16	$3.15	$3.11	1.61%
Sale & Lease Transactions	DOWN	1,696,073	3,581,011	2,920,910	(41.93%)
Gross Absorption	DOWN	1,156,351	1,249,530	1,276,259	(9.40%)
Net Absorption	POSITIVE	10,513	41,945	(334,480)	N/A

ABSORPTION. There were 10,513 SF of positive net absorption in Q2, bringing the total positive net absorption for the first half of 2026 to 53,658 SF. The past three calendar years have each seen a decrease in the office-occupier footprint. 2026's increase in the total footprint was driven by sublease activity, with a total of 116,287 SF of positive sublet net absorption in the first half of the year.

CONSTRUCTION. There were 75,000 SF of new office deliveries in the first half of 2026, all coming from one Sharp Healthcare medical office in Chula Vista. This compares to 1.6 MSF of new office deliveries in 2025, with the vast majority of that total coming from the RaDD project in Downtown San Diego. 2025 was the second consecutive year with more than 1 MSF of new office deliveries. There were only two years with more than 1 MSF of new office construction in the preceding 14 years. Through the first half of 2026, the development pipeline has transitioned from a torrent to a trickle. Due to changing market dynamics and the previously elevated construction pipeline, the amount of vacant office space in the county has increased by 5 MSF since the end of 2019. It would be a shock to see significant new speculative office development in the next few years. At the end of Q2 there were only 649,392 SF under construction. The buildings under construction were an 8-story office and research build-to-suit for Novartis in UTC, along with various medical office buildings. There were no traditional office buildings under construction at the end of Q2.

EMPLOYMENT. The unemployment rate in San Diego County was 3.9% in May 2026, down from a revised 4.1% in April 2026 and below the year-ago estimate of 4.1%. This compares with an unadjusted unemployment rate of 4.7% for California and 4.1% for the nation during the same period. Over the 12-month period between May 2025 and May 2026, San Diego County employment increased by 13,400 jobs, an increase of 0.7%. With delays in reporting from the California EDD, employment figures from June were unavailable at the time of publishing this report. For the nation as a whole, the U.S. economy added 57,000 jobs in June, less than half the Dow Jones consensus forecast.

NEW DELIVERIES & NET ABSORPTION



NEW DELIVERIES: New Construction Delivered to the Market
NET ABSORPTION: Changes in the Amount of Occupied Space from One Quarter to the Next

Forecast

Delinquency rates for CMBS-backed office mortgages remain near all-time highs. This has and will continue to place downward pressure on office sale pricing. Properties that trade at discounted prices provide new owners with a lower cost basis, allowing them to offer more competitive rental rates. As a result, rental rates are expected to remain under pressure, while elevated vacancy levels are unlikely to improve meaningfully in the coming months. The market continues to be driven by tenants' flight to quality, with well-located, highly amenitized properties expected to outperform.

Significant Transactions

Sales

Property Address	Submarket	Class	Square Feet	Sale Price	Buyer	Seller
1420 Kettner Blvd.	Downtown	B	123,079	$30,500,000	Conrad Prebys Foundation	Divco West Services, LLC
12220 Scripps Summit Dr.	Scripps Ranch	B	129,919	$25,000,000	Sorrento West Properties	Divco West Services, LLC
11770 Bernardo Plaza Ct.	Rancho Bernardo	B	75,598	$18,250,000	Compass Capital Investments	Virtus Real Estate Capital
5575 Ruffin Rd.	Kearny Mesa	B	34,531	$12,075,000	Equinvests Capital	Fenway Capital Advisors, LLC
613 W. Valley Pkwy.	Escondido	B	53,001	$10,090,000	KB Home	Baker Enterprises

Leases

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
4305 University Ave.	College Area	B	37,986	Jun-2026	Child Welfare Services	Price Philanthropies
3570 Carmel Mountain Rd.	Del Mar Heights	A	26,219	May-2026	MG Properties	The Irvine Company
591 Camino de la Reina	Mission Valley	A	25,308	Jun-2026	HDR	Westbrook Partners
9775 Businesspark Ave.	Scripps Ranch	B	25,266	Apr-2026	Bosch	Scripps Collection, LLC
1800 Aston Ave.	Carlsbad	A	24,839	Apr-2026	Undisclosed	CheckerProp

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate Q2 2026	Square Feet Available	Availability Rate Q2 2026	Average Asking Lease Rate	Net Absorption Q2 2026	Net Absorption 2026	Gross Absorption Q2 2026	Gross Absorption 2026
Downtown													
Downtown	133	16,208,300	0	550,000	5,390,185	33.26%	4,958,397	30.59%	$2.40	5,805	103,144	136,576	376,395
Downtown Total	133	16,208,300	0	550,000	5,390,185	33.26%	4,958,397	30.59%	$2.40	5,805	103,144	136,576	376,395
Central													
City Heights/University	32	1,240,063	0	40,000	55,328	4.46%	72,756	5.87%	$2.48	(2,255)	217	4,309	22,647
Coronado	5	111,541	0	0	11,258	10.09%	11,258	10.09%	-	4,876	4,876	8,791	8,791
Kearny Mesa	242	11,320,333	0	0	951,142	8.40%	1,239,727	10.95%	$2.74	38,817	52,574	114,832	194,686
Mission Gorge	19	578,819	0	0	21,724	3.75%	22,887	3.95%	$2.04	0	184	0	4,607
Mission Valley	132	7,579,024	0	1,299,136	1,054,214	13.91%	1,053,861	13.90%	$3.13	24,840	101,485	96,327	239,344
Old Town/Point Loma	73	2,296,438	0	0	206,031	8.97%	288,860	12.58%	$2.74	(8,807)	(33,133)	4,419	11,920
Park East	15	226,498	0	0	10,536	4.65%	11,262	4.97%	-	325	(2,425)	325	1,051
Rose Canyon/Morena	50	1,196,889	0	0	62,399	5.21%	105,167	8.79%	$2.70	(1,730)	20,098	10,195	36,013
Uptown/Hillcrest	72	2,097,607	0	0	177,888	8.48%	170,393	8.12%	$3.08	(15,569)	(7,369)	12,588	31,625
Central Total	640	26,647,212	0	1,339,136	2,550,520	9.57%	2,976,171	11.17%	$2.95	40,497	136,507	251,786	550,684
I-15 Corridor													
Escondido	74	1,786,531	0	0	199,059	11.14%	335,139	18.76%	$2.37	(6,817)	(19,746)	7,913	25,924
Poway	30	1,203,914	0	0	62,359	5.18%	78,285	6.50%	$1.99	6,605	2,232	8,945	15,280
Rancho Bernardo	102	6,616,188	0	148,747	523,323	7.91%	1,134,356	17.15%	$3.42	(46,424)	(17,064)	47,552	111,249
Scripps Ranch	48	2,668,454	0	0	487,702	18.28%	604,123	22.64%	$2.98	76,337	60,904	85,961	113,107
I-15 Corridor Total	254	12,275,087	0	148,747	1,272,443	10.37%	2,151,903	17.53%	$3.05	29,701	26,326	150,371	265,560
North County Coastal													
Carlsbad	163	6,888,466	62,800	0	1,077,514	15.64%	1,640,589	23.60%	$2.70	9,086	(52,808)	110,326	191,553
Del Mar Heights/Carmel Valley	85	6,381,688	0	1,228,943	561,046	8.79%	934,410	14.64%	$4.75	12,895	(5,019)	55,530	150,885
North Beach Cities	114	2,821,975	0	0	304,399	10.79%	431,533	15.29%	$4.47	(3,994)	(24,182)	49,305	81,745
North County Total	362	16,092,129	62,800	1,228,943	1,942,959	12.07%	3,006,532	18.61%	$3.38	17,987	(82,009)	215,161	424,183
North City													
Governor Park	19	772,818	0	0	42,167	5.46%	164,385	21.27%	$3.21	(1,069)	(10,274)	3,940	11,510
La Jolla	43	1,300,537	0	0	195,596	15.04%	204,373	15.71%	$3.89	31,537	50,976	54,291	102,052
Miramar	31	982,864	0	0	89,741	9.13%	170,732	17.37%	$2.32	(7,796)	(3,856)	9,975	17,805
Sorrento Mesa	97	7,900,443	0	1,236,000	953,960	12.07%	1,217,912	15.42%	$3.20	(107,006)	(189,561)	60,050	87,316
Sorrento Valley	19	482,903	0	0	74,955	15.52%	41,834	8.66%	$2.52	7,661	298	8,800	12,067
Torrey Pines	36	2,884,638	0	154,547	90,512	3.14%	180,737	6.27%	$3.83	12,179	14,856	12,179	16,054
UTC	89	8,997,400	466,592	0	919,261	10.22%	1,555,339	16.43%	$3.85	61,212	7,914	172,224	253,176
North City Total	334	23,321,603	466,592	1,390,547	2,366,192	10.15%	3,535,312	14.86%	$3.60	(3,282)	(129,647)	321,459	499,980
Southern & Eastern Areas													
Chula Vista	96	3,077,718	0	1,790,000	166,548	5.41%	152,666	4.96%	$2.92	(10,595)	30,811	23,134	115,156
National City	17	583,572	70,000	0	25,966	4.45%	30,853	4.72%	$2.62	5,425	26,490	5,425	43,131
South San Diego	16	424,794	0	0	67,562	15.90%	69,729	16.41%	$2.96	0	(15,090)	0	1,205
Southeast San Diego	13	481,600	0	0	1,200	0.25%	1,200	0.25%	-	9,166	9,166	9,166	9,166
East County	151	3,801,775	50,000	0	146,663	3.86%	203,929	5.29%	$2.81	(4,822)	11,373	18,389	61,401
Southern & Eastern Areas Total	293	8,369,459	120,000	1,790,000	407,939	4.87%	458,377	5.40%	$2.83	(826)	62,750	56,114	230,059
Highway 78 Corridor													
Oceanside	63	1,550,821	0	0	133,840	8.63%	163,757	10.56%	$2.98	(25,393)	(19,487)	8,544	19,221
San Marcos	37	1,436,843	0	1,413,316	115,984	8.07%	115,517	8.04%	$2.50	(23,959)	(25,489)	2,003	6,125
Vista	49	1,128,801	0	0	163,337	14.47%	200,340	17.75%	$2.45	(30,017)	(18,437)	14,337	33,674
Highway 78 Corridor Total	149	4,116,465	0	1,413,316	413,161	10.04%	479,614	11.65%	$2.61	(79,369)	(63,413)	24,884	59,020
Class A	303	42,329,547	566,592	5,551,718	7,360,295	17.39%	9,518,168	22.19%	$3.62	31,267	121,417	417,761	950,714
Class B	1,247	50,730,138	82,800	2,308,971	5,920,970	11.67%	6,929,501	13.64%	$2.98	35,312	(25,341)	617,792	1,219,968
Class C	615	13,970,570	0	0	1,062,134	7.60%	1,118,637	8.01%	$2.46	(56,066)	(42,418)	120,798	235,199
San Diego County Total	**2,165**	**107,030,255**	**649,392**	**7,860,689**	**14,343,399**	**13.40%**	**17,566,306**	**16.31%**	**$3.16**	**10,513**	**53,658**	**1,156,351**	**2,405,881**

This survey consists of buildings greater than 10,000 square feet. Lease rates are on a full-service gross basis.

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Voit
REAL ESTATE SERVICES

Signs of Stabilization

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The San Diego County office market posted two consecutive quarters of positive net absorption to start 2026. The 50,000 SF of positive net absorption recorded over the first half of the year hardly moves the needle, but an occupancy gain of any amount is nonetheless a welcome sign. Have the market's occupancy losses of the past four years finally bottomed out?

Return-to-office directives have been a steady drumbeat, gradually pulling remote workers back to in-person attendance. Working from home has not completely lost its appeal, but a softer job market has shifted the balance of leverage toward employers. Business owners and managers have recognized the loss of company culture, collaboration, and training that accompanied the remote-work boom, and they have consistently pushed for increased in-person attendance.

Another factor contributing to stabilization in the office market is the shrinking construction pipeline. Both 2024 and 2025 saw well over 1M SF of new office space delivered to the market, while fewer than 100,000 SF were completed during the first half of 2026. Developers were building into a market with declining demand, and that excess inventory is likely to discourage another wave of office construction until supply and demand return to a more balanced state.

If we believe the office market is bottoming out, then where will future growth come from? We often look to interest rate cuts to spur real estate investment, but they may not be the savior because rates may not decline as quickly as many are hoping. New Federal Reserve Chairman Kevin Warsh has been less dovish than some expected and appears keenly focused on inflation. Those concerns affect bond market expectations, which have kept longer-term borrowing costs elevated. Beyond the timing of rate cuts, it's important to remember that Federal Reserve easing is often a response to slowing economic conditions which tend to dampen investment.

The office market really needs job growth in order to turn the corner, and there are reasons for optimism on that front. San Diego remains one of the nation's premier markets for defense contractors. With the ongoing conflict with Iran, along with the war in Ukraine, defense spending is booming and San Diego's economy is already benefiting. One example is General Atomics' acquisition of 12220 Scripps Summit Drive during the second quarter. This was one of 27 owner-user purchases in the second quarter, which equals the highest quarterly total of the past four years. This increase in owner-user purchases is another promising sign in the office market.

The coming quarters will determine whether market vacancy has truly peaked and whether the office market has indeed found its bottom. For now, however, the early signs are encouraging.

Product Type

CLASS A: Most prestigious buildings competing for premier office users with rents above average for the area. Buildings have high-quality standard finishes, state-of-the-art systems, exceptional accessibility and a definite market presence.

CLASS B: Buildings competing for a wide range of users with rents in the average range for the area. Building finishes are fair to good for the area, and systems are adequate. However, Class B buildings cannot compete with Class A buildings of the same price.

CLASS C: Buildings competing for tenants requiring functional space at rents below the area average.

Submarkets

DOWNTOWN: Downtown

CENTRAL: City Heights / University, Coronado, Kearny Mesa, Mission Gorge, Mission Valley, Old Town / Point Loma, Park East, Rose Canyon / Morena, Uptown / Hillcrest

I-15 CORRIDOR: Escondido, Poway, Rancho Bernardo, Scripps Ranch

NORTH COUNTY COASTAL: Carlsbad, Del Mar Heights / Carmel Valley, North Beach Cities

NORTH CITY: Governor Park, La Jolla, Miramar, Sorrento Mesa, Sorrento Valley, Torrey Pines, UTC

SOUTHERN & EASTERN AREAS: Chula Vista, East County, National City, South San Diego, Southeast San Diego

HIGHWAY 78 CORRIDOR: Oceanside, San Marcos, Vista

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This survey consists of properties representing both single tenant and multi-tenant buildings. The lease rates are based on a full-service gross basis. The information contained in this report is gathered from sources that are deemed reliable, but no guarantees are made as to its accuracy. This information is for Voit Real Estate Services' use only and cannot legally be reproduced without prior written consent from the management of Voit Real Estate Services.

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