Net Absorption Turns Negative but Landlords Hold Firm on Rents

▼13.8%
Vacancy Rate

▼(134,844)
SF Net Absorption

▶0
SF Construction Delivered

▶0
SF Under Construction

▲$3.55
FSG/MTH Direct Lease Rate

Note: Arrows indicate change from previous quarter.

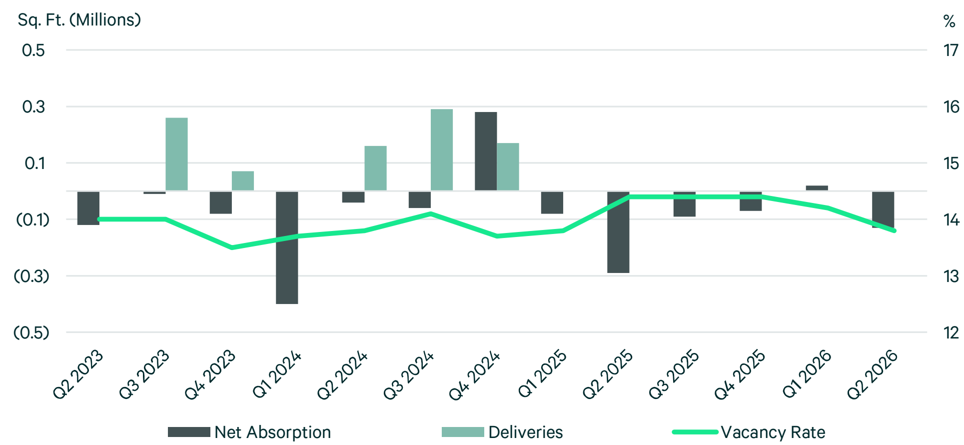
Market Overview

San Diego's office market concluded H1 2026 with demand returning to negative territory. The metro realized 135,000 sq. ft. of negative net absorption in Q2, following a Q1 that saw positive demand for the first time since Q4 2024. Weakness was pervasive as just one submarket, Southwest Riverside, posted positive net absorption and similarly, all property classes had negative demand. Still, net absorption improved by 159,000 sq. ft. compared with the same period one year earlier. Moreover, leasing activity picked up compared to both Q1 and last year's first half.

Metro vacancy fell 40 basis points (bps) quarter-over-quarter (Q-o-Q) to 13.8%, supported by a modest reduction in inventory and the absence of supply-driven pressure. Year-over-year (Y-o-Y), the vacancy rate was down by 60 bps. The total availability rate decreased to 18.9%, matching its lowest level since Q4 2023.

Local landlords, despite the uneven demand in recent years, have held firm on asking rents, and that trend continued in Q2. The average rent was $3.55 per sq. ft., an increase both Q-o-Q and Y-o-Y. Strength was widespread as rents fell in only one submarket, South San Diego.

Figure 1: Historical Net Absorption, Deliveries, and Vacancy



Source: CBRE Research, Q2 2026

Vacancy

The total vacancy rate fell 40 bps Q-o-Q, to 13.8%, with vacancies compressing in four of the metro's six submarkets. A reduction in inventory further benefited occupancy, as the market's footprint decreased by 0.7%, or 500,000 sq. ft. from Q1.

In Class A buildings, total vacancy fell 50 bps, to 15.6%, while total Class B vacancy edged 20 bps lower, to 13.8%. Class C moved down 40 bps, to 8.4%. Y-o-Y, vacancy was likewise lower in all categories; Class A decreased by 50 bps, Class B fell 80 bps, and Class C compressed by 30 bps.

The largest decrease among submarkets came in Downtown, where the vacancy rate fell by 110 bps, to 24.6%. Other submarkets with lower vacancies Q-o-Q included Central San Diego, down 50 bps to 12.4%, East County, 20 bps lower to 5.4%, and Southwest Riverside, where vacancies decreased by 60 bps to 4.6%.

Conversely, North County saw the total vacancy rate rise by 30 bps, to 14.4%, and in South San Diego, vacancies were 80 bps higher, at 6.1%.

Sublease vacancy was just 0.9%, or less than half of this decade's peak. Across all submarkets, there was 657,000 sq. ft. of vacant sublease space, concentrated primarily in Central San Diego, North County, and Downtown.

Asking Rent

The average direct asking lease rate in Q2 was $3.55 per sq. ft., up 1.7% from $3.49 per sq. ft. in Q1, and 4.7% higher from $3.39 per sq. ft. in Q2 2025.

Class A asking rents increased from $3.87 per sq. ft. to $3.95 per sq. ft., a 2.1% Q-o-Q rise and 3.9% higher Y-o-Y. Class B rates expanded from $3.15 per sq. ft. to $3.18 per sq. ft., a 1.0% quarterly increase and 5.0% above Q2 2025. Class C rents grew from $2.40 per sq. ft. to $2.41 per sq. ft., 0.4% higher Q-o-Q but down 2.0% relative to $2.46 per sq. ft. in Q2 2025.

Central San Diego posted the highest average direct asking rate, at $3.81 per sq. ft., increasing to $4.34 per sq. ft. for Class A space. Downtown averaged $3.42 per sq. ft. on a blended basis, a new cyclical peak, and the area's Class A rents expanded to $3.68 per sq. ft., likewise achieving a post-COVID era high. Southwest Riverside recorded the lowest combined average at $2.22 per sq. ft.

Figure 2: Total Vacancy Rates by Class

Source: CBRE Research, Q2 2026

Figure 3: Average Direct Asking Rate by Class

Source: CBRE Research, Q2 2026

Net Absorption

After beginning 2026 with the first quarter of positive net absorption since Q4 2024, office demand returned to negative territory in Q2. The market posted 135,000 sq. ft. of occupancy losses, compared to 24,000 sq. ft. of positive demand in Q1. Net absorption also fell well short of the rolling four-quarter average of negative 67,000 sq. ft., partly due to a lack of new leases exceeding 10,000 sq. ft.

The weakness was widespread among property classes, as all asset types landed in the red. Class A, which has easily outperformed Class B and Class C assets since 2022, posted negative 35,000 sq. ft. of net absorption, while Class B totaled negative 42,000 sq. ft. and Class C was negative 58,000 sq. ft.

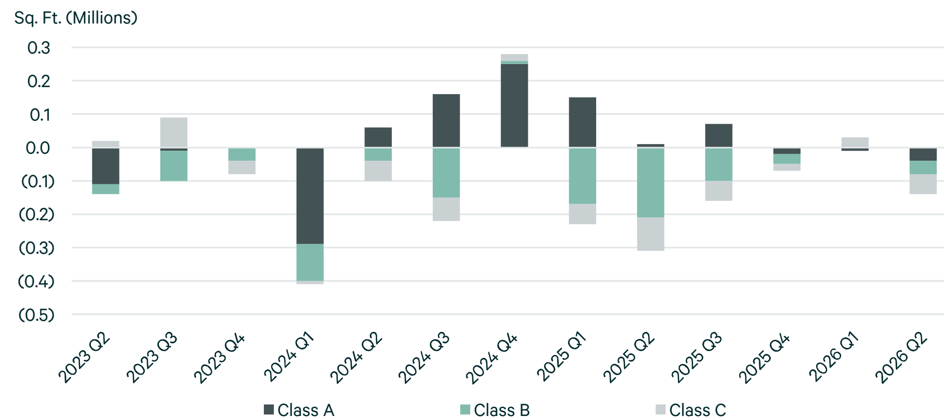
Similarly, demand was limited countywide. The only submarket to realize positive net absorption was Southwest Riverside, with 6,000 sq. ft. of demand. North County had the most significant occupancy losses, with 63,000 sq. ft. of negative net absorption, followed by Central San Diego with negative 29,000 sq. ft., Downtown with negative 22,000 sq. ft., South San Diego at negative 22,000 sq. ft., and East County with negative 6,000 sq. ft.

Construction Activity

No office projects were under construction at the halfway point of 2026, and similarly, no office buildings have delivered this year. The development pipeline has been empty for seven consecutive quarters, marking a multi-year pullback from Q1 2023, when 850,000 sq. ft. of Class A space was underway, to Q3 2024, when 290,000 sq. ft. wrapped up construction.

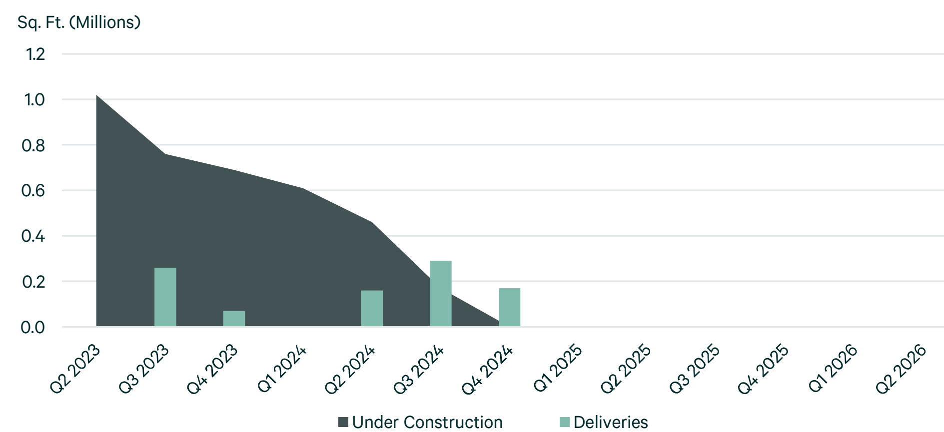
From 2023-2024, San Diego gained 1.0 million sq. ft. of new product, all within the Class A segment, while Class B and Class C were inactive. In Central San Diego, 450,000 sq. ft. completed construction during that period, closely followed by Downtown picking up 450,000 sq. ft. of new supply, and North County seeing 50,000 sq. ft. come online.

Figure 4: Net Absorption Trend



Source: CBRE Research, Q2 2026

Figure 5: Construction Activity



Source: CBRE Research, Q2 2026

Leasing Activity

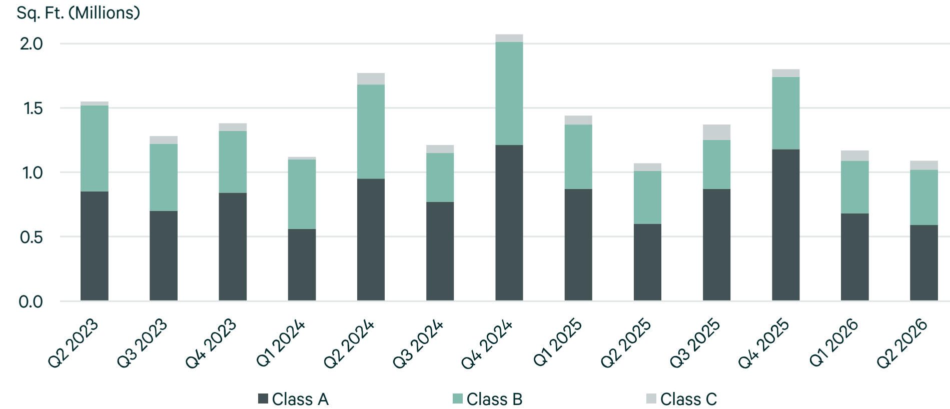
Leasing activity totaled 1.4 million sq. ft., modestly topping Q1's 1.3 million sq. ft. and concluding a healthy first half of the year. In H1 2026, leasing activity summed 2.7 million sq. ft., surpassing H1 2025 by 4.5%.

Class A product accounted for the bulk of leasing with 860,000 sq. ft. of activity recorded, the category's second strongest quarter since 2025. Class B leasing totaled 450,000 sq. ft., almost on par with its four-quarter average of 440,000 sq. ft.

Central San Diego dominated market activity, posting 952,000 sq. ft., or 68.5% of all leasing. Coupled with 842,000 sq. ft. of leasing activity in Q1, Central San Diego's first half exceeded H1 2025 by 7.9%. Class A accounted for 56.3% of the area's Q2 leasing activity.

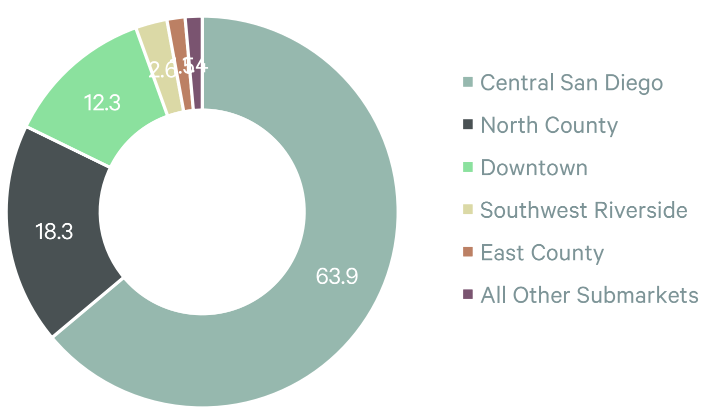
North County followed with 225,000 sq. ft. of leasing activity, and it was trailed by Downtown, with 150,000 sq. ft. North County's total was its highest since Q2 2024 and surpassed the submarket's three-year quarterly average by 18.3%. In stark contrast, Downtown's sum was its lowest since Q1 2024, due to just 10,000 sq. ft. of activity in the Class B market.

Figure 6: Leasing Activity Trend



Source: CBRE Research, Q2 2026

Figure 7: Leasing by Submarket (% of Total Activity)



Source: CBRE Research, Q2 2026

Figure 8: Key Lease Transactions

Tenant	Sq. Ft. Leased	Transaction Type	Address	Submarket
Industrious	26,000	New Lease	401 W A St	Downtown
California Department of Tax & Fee Administration	26,000	Renewal	15015 Avenue of Science	Rancho Bernardo
Bosch Building Technologies	25,000	New Lease	9775 Businesspark Ave	Scripps Ranch
Kisco Development	20,000	Renewal	5790 Fleet St	North County
QED Systems	20,000	Renewal	9444 Farnham St	Kearny Mesa
NeoGenomics Laboratories	17,000	Renewal	2173 Salk Ave	Carlsbad
San Diego Lighting Associates	17,000	New Lease	9640 Granite Ridge Dr	Kearny Mesa
Mutual of Omaha Insurance Co.	16,000	Renewal	3131 Camino del Rio N	Mission Valley

Source: CBRE Research, Q2 2026

Market Statistics

Figure 9: Market Statistics by Class

Property Class	Net Rentable Area (SF)	Total Vacancy (%)	Total Availability (%)	Direct Availability (%)	Sublease Availability (%)	Avg. Direct Asking Rate ($/SF FSG/mth)	Current Quarter Net Absorption (SF)	YTD Net Absorption (SF)	Deliveries (SF)	Under Construction (SF)
Class A	33.29M	15.6	24.1	21.1	3.0	3.95	(35,000)	(41,000)	-	-
Class B	29.67M	13.8	16.9	15.2	1.7	3.18	(42,000)	(46,000)	-	-
Class C	11.29M	8.4	9.0	8.9	0.1	2.41	(58,000)	(24,000)	-	-
Total	**74.25M**	**13.8**	**18.9**	**16.9**	**2.0**	**3.55**	**(135,000)**	**(111,000)**	**-**	**-**

Source: CBRE Research, Q2 2026

Market Statistics

Figure 10: Suburban Market Statistics by Class

Property Class	Net Rentable Area (SF)	Total Vacancy (%)	Total Availability (%)	Direct Availability (%)	Sublease Availability (%)	Avg. Direct Asking Rate ($/SF FSG/mth)	Current Quarter Net Absorption (SF)	YTD Net Absorption (SF)	Deliveries (SF)	Under Construction (SF)
Class A	25.37M	12.7	22.0	18.4	3.7	4.10	(51,000)	(90,000)	-	-
Class B	27.73M	12.6	15.7	14.0	1.7	3.26	(4,000)	(9,000)	-	-
Class C	9.84M	7.7	8.3	8.2	0.1	2.50	(58,000)	(22,000)	-	-
Total	**62.94M**	**11.8**	**17.1**	**14.8**	**2.3**	**3.60**	**(113,000)**	**(121,000)**	**-**	**-**

Source: CBRE Research, Q2 2026

Figure 11: Urban Market Statistics by Class

Property Class	Net Rentable Area (SF)	Total Vacancy (%)	Total Availability (%)	Direct Availability (%)	Sublease Availability (%)	Avg. Direct Asking Rate ($/SF FSG/mth)	Current Quarter Net Absorption (SF)	YTD Net Absorption (SF)	Deliveries (SF)	Under Construction (SF)
Class A	7.92M	25.0	30.7	29.8	0.9	3.68	16,000	49,000	-	-
Class B	1.94M	31.2	33.2	32.6	0.6	2.72	(38,000)	(36,000)	-	-
Class C	1.45M	13.5	14.0	14.0	-	2.00	-	(2,000)	-	-
Total	**11.31M**	**24.6**	**29.0**	**28.3**	**0.8**	**3.42**	**(22,000)**	**11,000**	**-**	**-**

Source: CBRE Research, Q2 2026

Market Statistics

Figure 12: Market Statistics by Submarket

Submarket	Net Rentable Area (SF)	Total Vacancy (%)	Total Availability (%)	Direct Availability (%)	Sublease Availability (%)	Avg. Direct Asking Rate	Class A Asking Rent ($/SF FSG/mth)	Current Quarter Net Absorption (SF)	YTD Net Absorption (SF)	Deliveries (SF)	Under Construction (SF)
Central San Diego	44.54M	12.4	18.8	16.3	2.5	3.81	4.34	(29,000)	22,000	-	-
Downtown	11.31M	24.6	29.0	28.3	0.8	3.42	3.68	(22,000)	11,000	-	-
East County	2.67M	5.4	6.5	6.2	0.2	2.72	3.96	(6,000)	(13,000)	-	-
North County	10.20M	14.4	18.0	15.1	2.9	3.04	3.01	(63,000)	(55,000)	-	-
South San Diego	2.41M	6.1	7.0	6.7	0.3	2.90	2.99	(22,000)	(66,000)	-	-
Southwest Riverside	3.12M	4.6	7.5	7.4	0.1	2.22	2.41	6,000	(8,000)	-	-
Total	**74.25M**	**13.8**	**18.9**	**16.9**	**2.0**	**3.55**	**3.95**	**(135,000)**	**(111,000)**	**-**	**-**

Source: CBRE Research, Q2 2026

Economic Overview

The U.S. economy enters mid-2026 navigating crosscurrents but expanding at a healthy pace, with CBRE projecting GDP growth averaging 2.2%, broadly in line with 2025. The AI investment boom is certainly a key driver of this expansion, and while concerns surrounding its sustainability are valid, we expect AI-related business investment to continue.

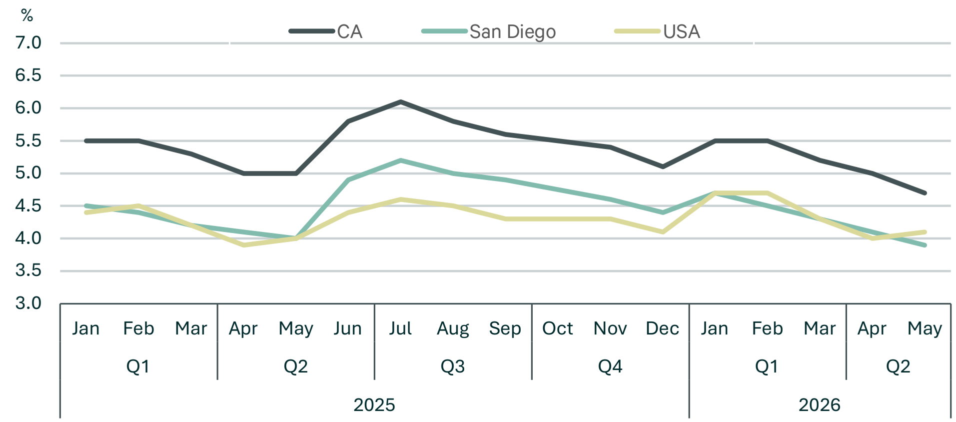
The more pressing concern in recent months has been the U.S./Iran conflict and its impact on world energy prices, which recently pushed U.S. inflation to 4.2%. Should the prospective peace deal announced in June come to fruition, inflation would fall to the upper 3% range by year-end as energy prices slowly decrease. Stickier inflation has pushed Treasury yields well above 4% and complicated real estate markets, but on the upside, the prospect for peace and normal trade flows in the Persian Gulf could refresh the optimism CRE felt at the beginning of the year.

Locally, San Diego's office market has been grappling with the multiple headwinds that have led to rising vacancies and negative demand in most periods since 2020. That includes tensions over hybrid, flexible, or full-time employee attendance, rising expenses, conflicting economic indicators, high interest rates that are constraining business expansion, and geopolitical uncertainty.

San Diego, however, has navigated this decade's myriad challenges more successfully than many other locales. In contrast to many metros, the county benefits from not being overly weighted toward one industry or corporate occupier, a dynamic that has helped buttress occupancy. Numerous prominent defense firms have county outposts, thanks to the military's heavy presence, while the area's prestigious institutions of higher learning have helped form the nation's third-largest life sciences market. Advanced education and access to talent have similarly played a role in developing and expanding the technology industry, and MAANG companies have clearly taken notice, with most of that cohort opening locations or expanding existing operations here this decade.

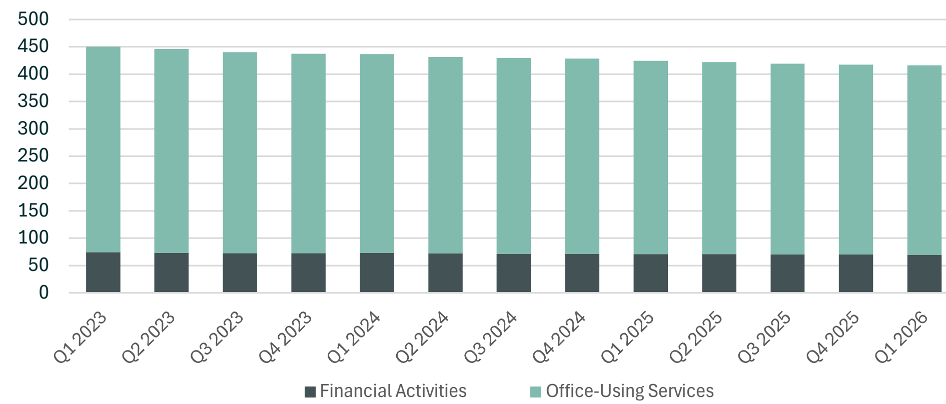
Office landlords also receive an assist from the government, as San Diego is home to one of the country's highest percentages of public service jobs. But the lifeblood of the office market are the professional and financial services companies and legal firms that serve the wider community and likewise help reinforce occupancy.

FIGURE 13: Unemployment Rate



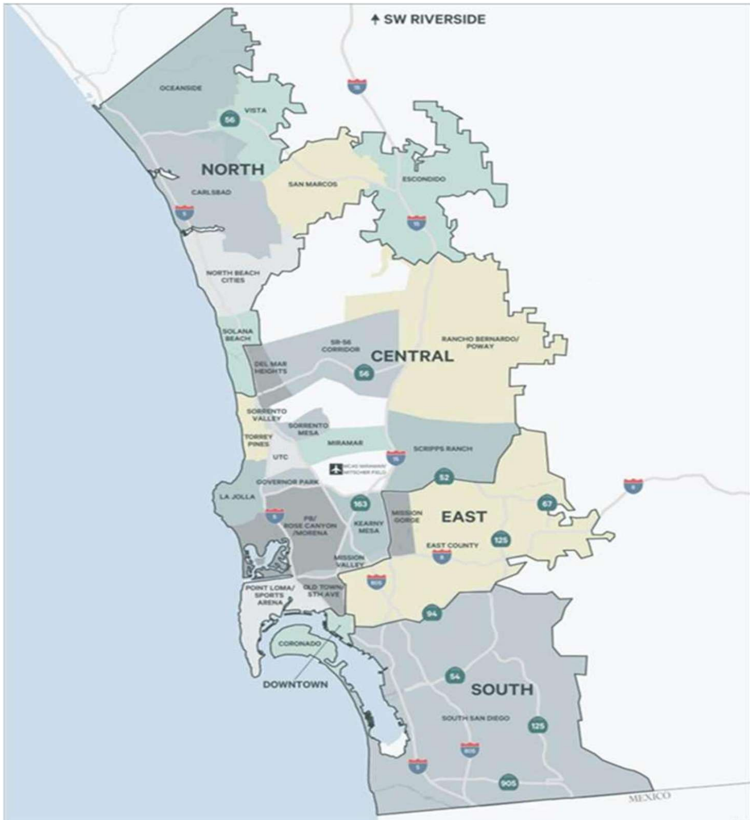
Source: U.S. Bureau of Labor Statistics, Q2 2026

FIGURE 14: Office Employment (Thousands)



Source: CBRE Econometric Advisors, Q2 2026

Market Area Overview



Definitions

Available Sq. Ft.: Space in a building, ready for occupancy within six months; can be occupied or vacant. Availability Rate: Total Available Sq. Ft. divided by the total building Area. Average Asking Lease Rate: A calculated average that includes net and gross lease rate, weighted by their corresponding available square footage. Building Area: The total floor area sq. ft. of the building, typically taken at the "drip line" of the building. Gross Activity: All sale and lease transactions completed within a specified time period. Excludes investment sale transactions. Gross Lease Rate: Rent typically includes real property taxes, building insurance, and major maintenance. Net Absorption: The change in Occupied Sq. Ft. from one period to the next. Net Lease Rate: Rent excludes one or more of the "net" costs (real property taxes, building insurance, and major maintenance) typically included in a Gross Lease Rate. Occupied Sq. Ft.: Building Area not considered vacant. Vacancy Rate: Total Vacant Sq. Ft. divided by the total Building Area. Vacant Sq. Ft.: Space that can be occupied within 30 days. Class A industrial are buildings built after 2000, with 32' or greater clear height and ESFR sprinklers.

Survey Criteria

Includes all Class A, B and C office projects 30,000 sq. ft. and greater in size, excluding government, medical, and owner-user buildings. Excludes buildings Under Construction or Planned. Under Construction includes buildings which have begun construction as evidenced by site excavation or foundation work.

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