

MARKET FUNDAMENTALS

	YOY Chg	Outlook
14.7% Vacancy Rate	▲	▼
141K YTD Net Absorption, SF	▲	▲
\$3.51 Asking Rent, PSF (Overall, All Property Classes)	▲	▲

ECONOMIC INDICATORS

	YOY Chg	Outlook
1.6M San Diego Employment	▲	▲
4.5% San Diego Unemployment Rate	▼	▲
4.2% United States Unemployment Rate Source: BLS	▼	▲

ECONOMIC OVERVIEW

San Diego employment increased by 10,900 jobs, or 0.7% year-over-year (YOY), between August 2025 and August 2026. While payrolls continued to expand, growth remained below historical trends, limiting momentum for office demand. Health care led employment gains, adding 12,300 jobs (+5.0% YOY), though the sector provides relatively limited support for traditional office leasing. Other industries posted more modest gains, including leisure and hospitality (+5,500 jobs, +2.6% YOY) and administrative and support services (+3,100 jobs, +3.6% YOY). Although professional and business services remain a key office-using sector, its minimal growth (+100 jobs YOY) signals continued caution among occupiers.

Meanwhile, several office-using industries contracted, led by government (-4,200 jobs YOY), primarily due to federal job losses, along with declines in construction, financial activities, information and manufacturing. These losses, coupled with limited growth in professional and business services, constrained the employment drivers that typically support office demand.

The unemployment rate declined modestly to 4.9%¹ from 5.1% YOY but remained above the Q3 2026 average of 4.5%, reflecting a stable but not accelerating labor market. With job growth concentrated outside core office-using industries, the outlook for office demand remains cautious. Looking ahead, employment is projected to grow 1.0% in 2026 and 0.8% in 2027² - both below the five-year historical average of 1.8%. Slower hiring, particularly among office-using industries, is expected to limit expansion demand and contribute to a gradual, uneven recovery in the San Diego office market.

SUPPLY AND DEMAND

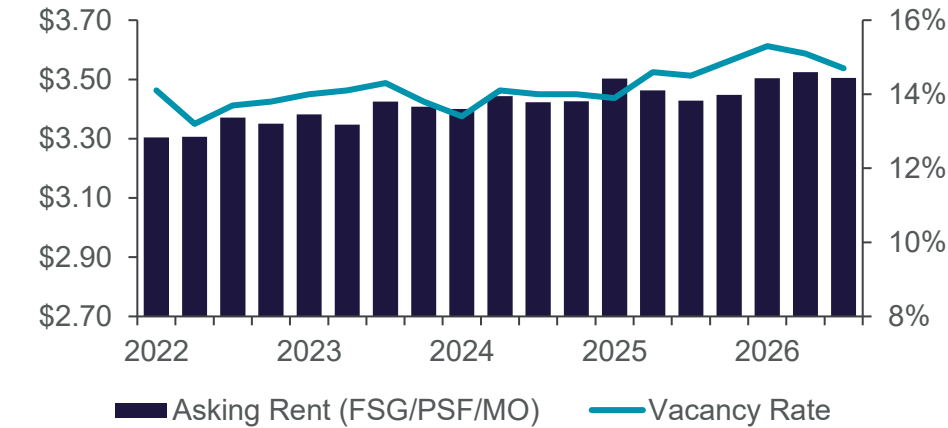
San Diego’s overall vacancy rate decreased 40 basis points (bps) quarter-over-quarter (QOQ) but increased 20 bps YOY to 14.7%. The direct vacancy rate fell 30 bps QOQ to 13.6%, remaining 30 bps above year-ago levels, while sublease vacancy dipped 10 bps QOQ and 20 bps YOY to 1.0%.

Total sublease availability rose to 3.4%, up 20 bps QOQ but down 10 bps YOY, suggesting gradual absorption of pandemic-era shadow space. Declining sublease availability is typically a leading indicator of market recovery. However, sublease availability remains 170 bps above Q1 2020 and 120 bps above the pre-pandemic 10-year average, indicating that excess space remains in the market.

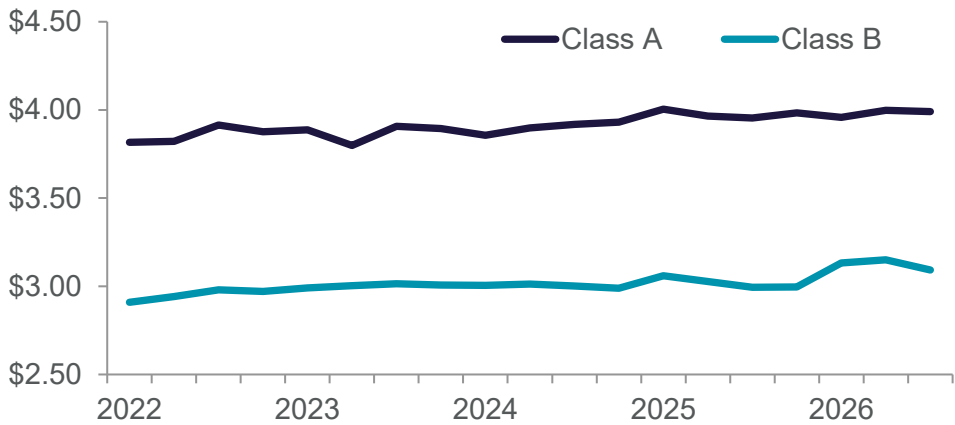
SPACE DEMAND / DELIVERIES



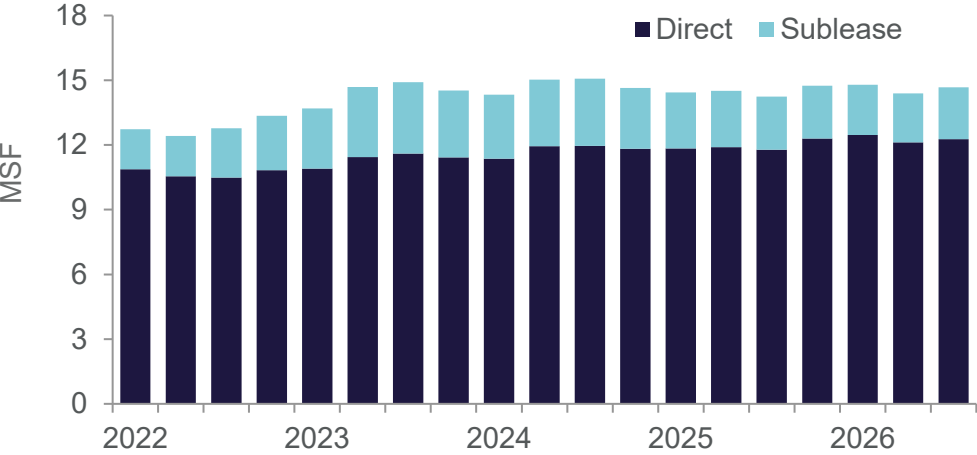
OVERALL VACANCY / ASKING RENT



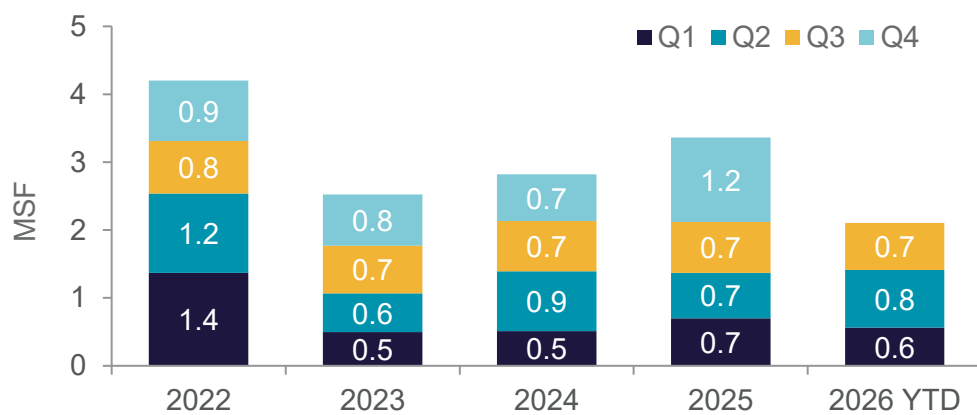
AVERAGE OVERALL ASKING RENT \$PSF MONTHLY



DIRECT VS. SUBLEASE AVAILABLE SPACE



NEW LEASING ACTIVITY



Net absorption totaled a positive 259,003 square feet (sf) in Q3 2026, with notable activity from several owner/user buyers, including Stanbridge University in Rancho Bernardo, Sweetwater Care in Carlsbad, Live Nation in Downtown, the Santa Fe Irrigation District in Solana Beach and First Citizens Bank in Del Mar Heights.

TENANT TRENDS

New leasing moderated but remained relatively steady in Q3 2026. New leasing totaled 696,000 sf, down 18% QOQ and 7% YOY and below the quarterly average of 790,000 sf since 2022. Economic uncertainty, evolving hybrid work strategies, and inflationary pressures continue to influence decision-making. Class A properties accounted for 49% of new leasing activity year-to-date, with trophy and amenitized buildings drawing strong interest, particularly among firms seeking to incentivize in-office attendance.

By industry, professional and business services tenants led activity in 2026, accounting for 23% of new leasing, followed by legal services (16%), life sciences (11%) and health care (9%). Among tenants leasing under 10,000 sf, professional and business services (18%), legal services (17%) and health care (15%) accounted for 50% of leasing volume, highlighting sustained demand from small and mid-sized users.

PRICING

The countywide overall average asking rent across all classes rose 2.2% YOY to \$3.51 per square foot (psf) on a full-service monthly basis. The Class A average asking rent increased 0.9% YOY to \$3.99 psf, while the Class B average asking rent rose 3.3% YOY to \$3.09 psf, narrowing the rent premium between the two classes.

Sublease availability increased slightly to 2.4 million square feet (msf), approximately 73% of the Q3 2023 peak of 3.3 msf, signaling ongoing absorption of excess space. Meanwhile, suburban submarkets continued to outperform, maintaining stable direct vacancy at 11.3%, while Downtown remained an outlier, with direct vacancy of 28.3%, continuing to place downward pressure on rents.

FUTURE INVENTORY

The Campus at Horton is expected to deliver 243,000 sf in 2026, increasing Downtown vacancy by approximately 240 bps. While 12.0 msf of proposed office development remains in the pipeline, financing constraints and economic uncertainty continue to delay projects, with no meaningful pre-leasing activity.

OUTLOOK

- Tenant behavior continues to evolve as occupiers balance hybrid work policies with changing business needs. Sub-10,000 sf leases remain the most active, reflecting continued rightsizing, while demand for mid-sized spaces (10,000–50,000 sf) has strengthened. Mid-sized spaces account for 38% of upcoming lease expirations over the next 12 to 24 months, while smaller tenants account for another 38% of total rollover. This fragmented expiration profile favors owners who can offer flexible floor plates and move-in-ready space.
- Countywide, active tenant requirements total 3.6 msf for spaces over 10,000 sf during the next two years. However, ongoing economic uncertainty and longer decision-making timelines suggest conversion of these requirements into signed leases will likely remain gradual.
- Many occupiers continue to prioritize high-quality, amenitized buildings that align with smaller post-pandemic footprints, placing increased pressure on older, less competitive assets. Consequently, flight-to-quality dynamics are expected to persist, with well-located Class A and upgraded Class B properties continuing to outperform. Buildings requiring significant capital investment may face longer lease-up periods, greater pricing pressure and larger concession packages.

MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)**	UNDER CNSTR (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
North County	11,607,750	73,142	1,520,600	13.7%	65,710	-72,630	315,620	0	\$2.94	\$3.19
Central County	42,421,781	589,523	4,866,567	12.9%	169,242	137,800	1,435,133	0	\$3.63	\$4.33
South County	17,104,004	73,217	3,320,190	19.8%	24,051	76,274	354,516	242,774	\$3.58	\$3.95
Class A	34,659,125	290,821	5,279,610	16.1%	122,677	34,510	1,031,767	242,774	\$3.99	
Class B	28,365,401	435,475	3,797,605	14.9%	99,280	52,145	922,339	0	\$3.09	
Class C	8,109,009	9,586	630,142	7.9%	37,046	54,789	151,163	0	\$2.22	
SAN DIEGO TOTALS	71,133,535	735,882	9,707,357	14.7%	259,003	141,444	2,105,269	242,774	\$3.51	

*Rental rates reflect full-service gross (FSG) asking, \$psf/month. **Renewals not included in leasing statistics.

KEY LEASE TRANSACTIONS Q3 2026

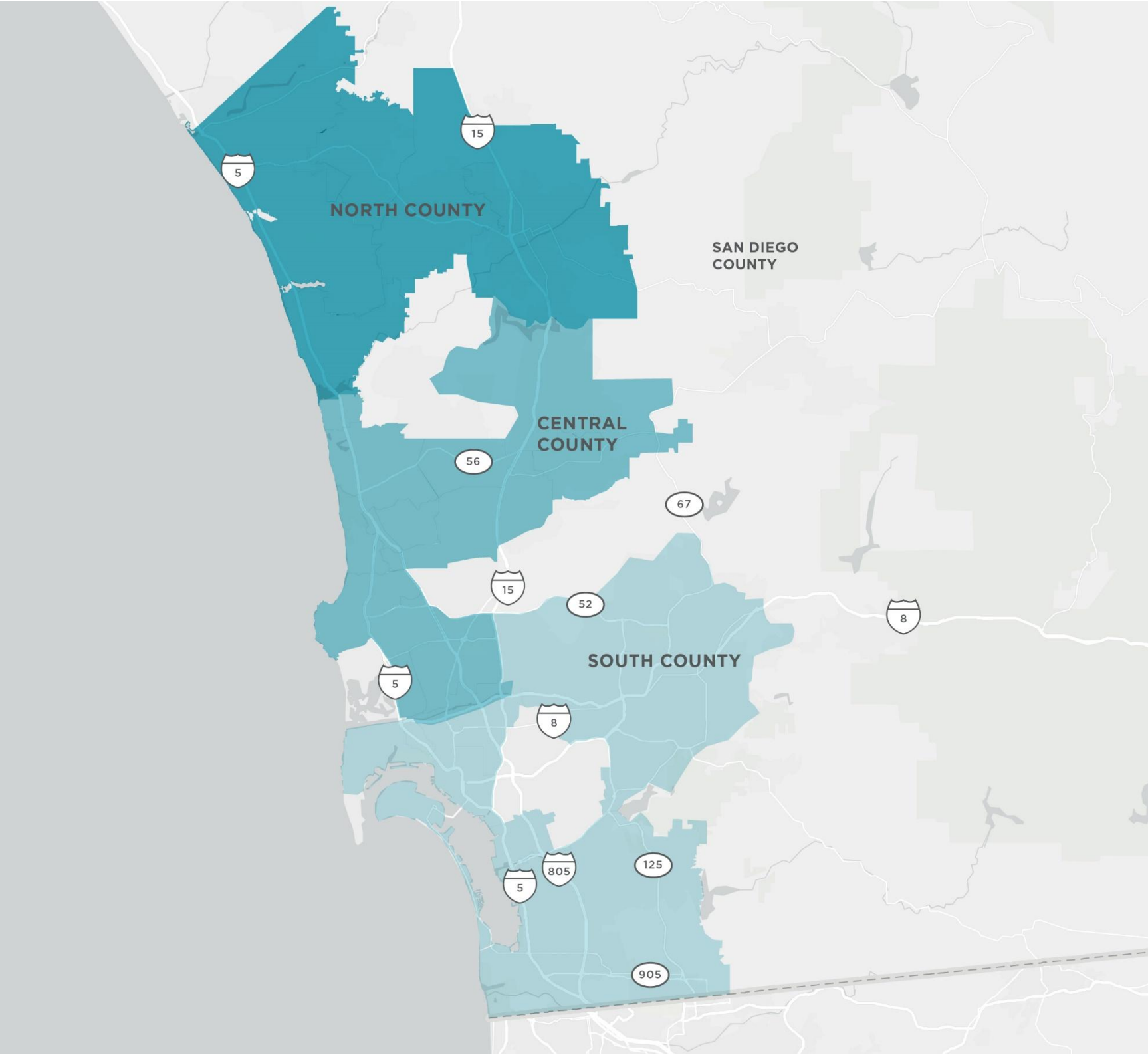
PROPERTY	SUBMARKET	TENANT	SF	TYPE
15004 Innovation Dr.	Rancho Bernardo	Scripps Health	150,801	Renewal**
11077 N. Torrey Pines Rd.	Torrey Pines	Sidley Austin	46,000	New
10182 Telesis Ct.	Sorrento Mesa	Whova	40,291	New
3661 Valley Centre Dr.	Del Mar Heights	Greenberg Traurig	27,220	New
350 10 th St.	Downtown	Gensler	19,396	New

KEY SALE TRANSACTIONS Q3 2026

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
Ventana	Carlsbad	Brookwood Financial / Orum Capital	219,440	\$24.5M / \$112
Bernardo Executive Center	Rancho Bernardo	Brookwood Financial / Stanbridge University	173,265	\$26.5M / \$153
High Bluff Ridge at Del Mar	Del Mar Heights	PGIM / First Citizens Bank	164,943	\$95.5M / \$579
Civic View Corporate Centre	San Marcos	Brookwood Financial / Newport National	95,551	\$15.0M / \$157
The Reserve	Carlsbad	Fabric Investments / Terra Vista Management	19,896	\$10.8M / \$543

Sources: ¹ www.EDD.gov San Diego-Chula Vista-Carlsbad, CA MSA. ²Lightcast forecast for San Diego-Chula Vista-Carlsbad, CA MSA as of October 2026.

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