

# INVESTMENT FORECAST

Office  
San Diego Metro Area

IPA  
INSTITUTIONAL  
PROPERTY  
ADVISORS

2026

## Rising Demand for Upper-Tier Space Collides With Significant Pullback in Local Office Construction

**Flight-to-quality evident in local hubs.** The performance of San Diego's office sector continues to be skewed by elevated vacancy in its downtown. Here, roughly 33 percent of existing office space was available at the beginning of this year, the highest percentage among the nation's major CBDs. As such, a nearly 2,000-basis-point disparity exists between local downtown and suburban vacancy. Fortunately, demand metrics are improving. Driven by an increase in Class A leasing, downtown registered positive net absorption in each of the past two years. In 2026, a lack of urban deliveries and the conversion of a vacant high-rise into apartments could help reduce vacancy. Elsewhere, collective vacancy is more manageable at roughly 14 percent. Like the CBD, suburban submarkets have registered a recent uptick in Class A leasing, with demand for high-quality office space most improved north of San Diego proper along Interstate 5. In 2026, the flight-to-quality among certain tenants is expected to continue. This, along with a significant pullback in local office construction, will play a role in the metro's overall vacancy rate compressing for the first time in five years.

**Standout submarket warrants attention.** Despite elevated vacancy, San Diego noted a nearly 20 percent year-over-year rise in sales activity during 2025. Investors, on average, acquired assets at high-7 percent cap rates, the top recording among major West Coast markets. In 2026, buyers may be most active in Central San Diego. The area has one of the lowest vacancy rates among national submarkets with more than 25 million square feet of stock. It continues to notch positive Class B/C demand, a contrast to the broader metro trend. Listings in Mission Valley and neighborhoods near Balboa Park will garner interest, with a wide pricing spectrum in these areas supporting a diverse buyer pool.

## 2026 MARKET FORECAST

+0.4%



**Employment:** Overall job creation improves modestly in 2026. However, the metro's count of traditional office-using roles is slated to decline for a fourth straight year — albeit at a more modest rate.

80,000  
sq. ft.



**Construction:** Local deliveries are extremely scarce this year — just 0.1 percent of existing inventory. Among major office markets, only Raleigh will add less space.

-40 bps



**Vacancy:** Amid a lack of new supply, tenants seeking upper- and mid-tier space will comb the metro's existing stock, aiding renewal and new leasing activity. As such, vacancy dips to 16.5 percent.

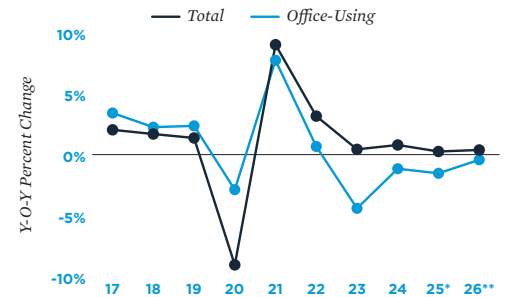
+0.5%



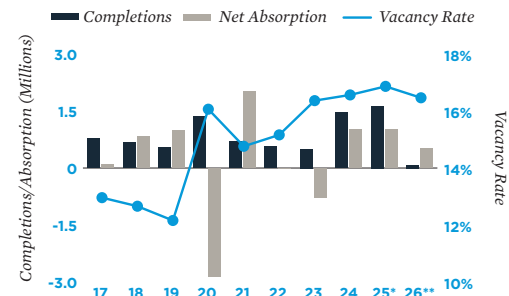
**Rent:** The metro's average asking rent increases nominally for a second straight year, reaching \$33.40 per square foot by year-end. Growth may be more pronounced across Class A properties.

**INVESTMENT:** Several smaller offices near Balboa Park recently traded for more than \$1,000 per square foot. This pricing may motivate owners of similar assets to list, creating opportunities for investors eyeing redevelopment.

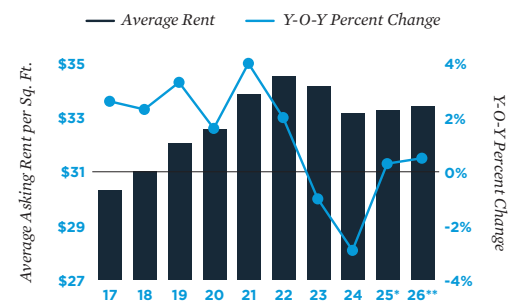
### Employment Trends



### Supply and Demand



### Rent Trends



\* Estimate \*\* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Office

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of January 2026. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and office data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guarantee regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.