

MARKET TRENDS

PENINSULA OFFICE

MARKET DRIVERS

The San Francisco Peninsula office market demonstrated meaningful signs of stabilization in the latter half of 2025, despite vacancy levels that remain historically high. At year-end, overall vacancy stood at 21.7%, with direct vacancy slightly lower at 20%. Approximately one-fifth of available space is still listed for sublease, underscoring the ongoing recalibration of workplace strategies as hybrid work models persist.

While fundamentals have strengthened, rental rates have largely plateaued following several quarters of softening. At the end of 4Q 2025, full-service asking rents for Class A and Class B properties generally ranged from the mid-\$5 to mid-\$6 per square foot per month, reflecting a market that is steady but competitive.

Demand dynamics improved notably during the second half of the year. The Peninsula recorded positive net absorption for three consecutive quarters, after beginning the year with negative activity (-425,650 SF) in 1Q. For the year, the market posted 457,197 sf of net absorption in 2025, with the second (563,420 SF) and fourth quarters (208,737 SF) delivering the strongest gains.

Leasing activity was characterized by a mix of smaller transactions and select mid-sized and large occupancies. The “flight to quality” remained a defining trend, with Class A and newly delivered projects capturing approximately 60% of annual leasing volume. In contrast, older properties continued to face longer marketing cycles and subdued demand unless repositioned to meet evolving tenant expectations.

Development activity remains steady. Following a handful of completions in 2025, approximately 1.3M SF is currently under construction, primarily tied to build-to-suit commitments or phased mixed-use projects. Speculative ground-up starts have been constrained by higher financing costs, tighter underwriting standards, and limited pre-leasing, which has helped temper vacancy rate pressure and prevent oversupply.

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Market Summary

	4Q25	3Q25	4Q24	YOY Change
Direct Vacancy Rate	20.0%	19.4%	17.5%	250 bps
Availability Rate	21.7%	24.7%	23.6%	-190 bps
Asking Lease Rate/SF/Mo	\$5.77	\$5.72	\$6.06	-4.7%
Under Construction (SF)	1,293,779	1,774,657	1,424,443	-9.2%
	4Q25	2025	2024	YOY Change
Construction Deliveries (SF)	225,878	1,445,384	236,119	512.1%
Leased SF	390,167	2,132,711	3,329,229	-35.9%
Sold SF	643,807	1,529,542	960,530	59.2%
Net Absorption (SF)	208,737	457,197	-1,747,390	N/A

↑ **390K SF**
LEASING ACTIVITY

↑ **208K SF**
NET ABSORPTION

↑ **20.0%**
DIRECT
VACANCY RATE

↓ **\$5.77**
ASKING RENT (AVG)

↓ **225K SF**
NEW DELIVERIES

—
Year-Over-Year Trend

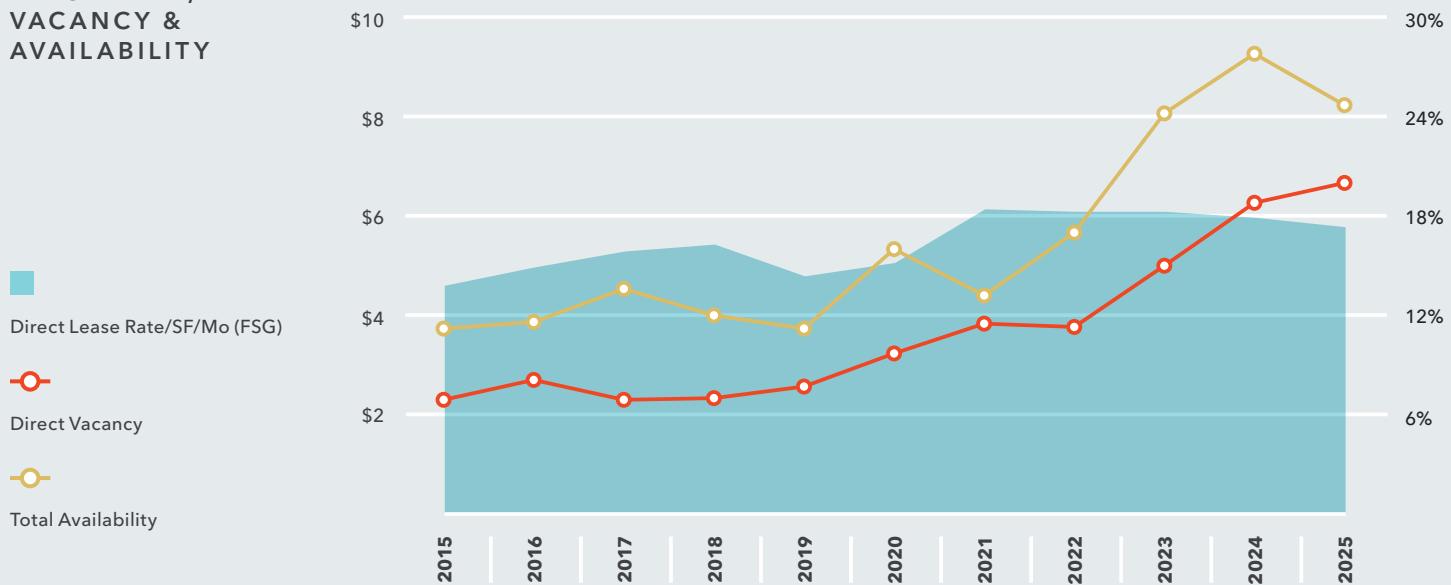
Market Highlights

DIRECT VACANCY rose to 20.0% in 4Q 2025

LEASING ACTIVITY ended the year with 2.1M SF

NET ABSORPTION was positive for the quarter with 208K SF

LEASE RATE, VACANCY & AVAILABILITY



BIGGEST LEASE OF THE QUARTER

2950 S Delaware St
San Mateo, CA



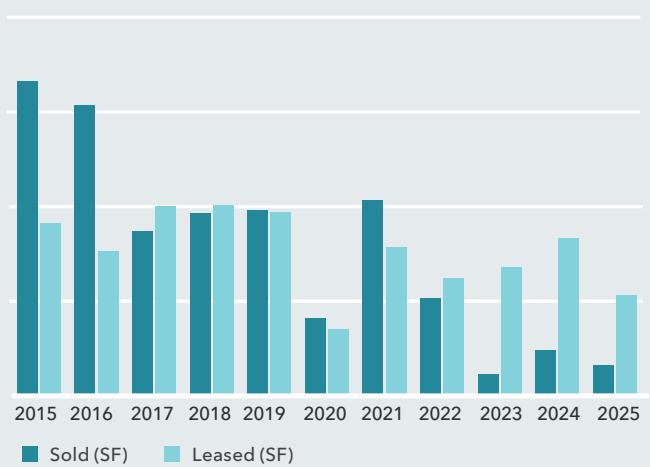
NET ABSORPTION & NEW DELIVERIES



AVERAGE SALES PRICE/SF & CAP RATE



SALE VOLUME & LEASING ACTIVITY



SUBMARKET STATISTICS

Submarket	Total Inventory	Under Construction	Direct Vacancy Rate	Total Vacancy Rate	Total Available Rate	4Q25 Total Net Absorption	2025 Total Net Absorption	4Q25 Leasing Activity	2025 Leasing Activity	Average Rental Rate (FS)
Daly City	432,922	0	5.9%	5.9%	5.9%	1,866	-8,084	1,376	6,741	\$2.91
Brisbane	856,248	0	20.1%	25.5%	22.3%	8,180	117,172	26,917	220,676	\$3.57
South San Francisco	3,892,165	0	25.8%	31.8%	34.2%	78,864	-88,796	1,521	128,705	\$3.31
San Bruno/Millbrae	1,619,165	440,000	14.2%	15.2%	7.9%	-5,124	-12,159	790	17,587	\$5.93
Burlingame	3,881,828	241,679	8.9%	12.7%	16.6%	21,398	29,049	74,286	161,876	\$4.11
North County Totals	10,682,328	681,679	14.8%	18.5%	19.7%	105,184	37,182	104,890	535,585	\$3.87
San Mateo	8,485,448	0	17.7%	23.0%	26.5%	-35,801	56,309	156,632	717,942	\$5.03
Foster City	1,995,009	192,100	24.7%	31.4%	36.0%	22,340	-199,228	9,477	163,960	\$5.06
Redwood Shores	3,434,070	0	28.8%	0.0%	0.0%	5,083	-122,526	33,113	119,544	\$5.31
Central County Totals	13,914,527	192,100	21.4%	18.5%	21.3%	-8,378	-265,445	199,222	1,001,446	\$5.04
Belmont/San Carlos	2,229,872	0	12.6%	20.3%	25.5%	19,004	21,461	8,247	207,431	\$4.33
Redwood City	5,922,677	420,000	35.1%	36.8%	44.8%	76,236	-22,865	16,381	92,071	\$6.28
Menlo Park	7,610,528	0	15.1%	20.9%	21.8%	16,691	686,864	61,427	296,178	\$8.72
South County Totals	15,763,077	420,000	22.3%	26.8%	31.0%	111,931	685,460	86,055	595,680	\$7.11
Peninsula Totals	40,359,932	1,293,779	20.0%	21.7%	24.7%	208,737	457,197	390,167	2,132,711	\$5.77
Class A	18,172,528	1,293,779	25.4%	32.4%	36.8%	118,615	523,698	265,578	1,300,863	\$6.79
Class B	16,849,428	0	19.2%	22.7%	26.1%	103,850	-7,539	95,861	734,688	\$5.37
Class C	5,337,976	0	9.2%	9.3%	9.8%	-13,728	-58,962	28,728	97,160	\$4.04

KEY INDUSTRIES DRIVING RECOVERY

Technology continues to anchor demand, though with a more selective footprint. Growth in AI, cloud infrastructure, and digital platforms fuels requirements for collaborative, high-quality space near transit corridors such as Caltrain and US-101. Life sciences and MedTech firms are adding steady requirements, often seeking flexible layouts and robust connectivity. Fintech companies are rightsizing into efficient footprints, while professional services and nonprofit organizations provide consistent demand for smaller, accessible spaces. Emerging sectors such as climate tech and clean energy are also contributing to incremental activity, favoring ESG-forward buildings.

NEAR-TERM OUTLOOK

Economic projections for the San Francisco Peninsula and broader Bay Area are cautiously optimistic heading into 2026. The region's economy, anchored by its premier position in AI and innovation, is expected to outperform the national average, driven by robust tech investment and business spending. However, the forecast is also tempered by headwinds including tariff volatility, high living costs, and potential constraints on consumer and small business spending.

The Peninsula office market is well positioned for gradual improvement in 2026. Vacancy is expected to trend downward as sublease inventory converts to direct leases, and new construction remains constrained. Leasing will continue to favor well-located Class A assets offering premium amenities, outdoor space, and sustainability features, while older properties may require significant upgrades or alternative uses to remain competitive. Rent growth is projected to be modest overall, though select trophy assets could see incremental gains as the flight to quality persists.

Expansion in technology and AI sectors is anticipated to drive future demand, complemented by steady growth in life sciences and professional services sectors. Key indicators to monitor include return-to-office trends, sublease absorption, leasing velocity, and macroeconomic factors such as interest rates and lender underwriting standards. Collectively, these dynamics set the stage for a measured and sustainable recovery in the year ahead.

SIGNIFICANT LEASE TRANSACTIONS 4Q 2025

Property	Submarket	SF	Transaction Date	Tenant
2950 Delaware St, S.	San Mateo	112,995	November 2025	Roblox
85 Willow Rd	Menlo Park	38,667	October 2025	Robinhood
220 Park Rd	Burlingame	34,842	November 2025	Confluent

SIGNIFICANT UNDER CONSTRUCTION

Property	Address	Submarket	SF	Owner	Delivery
Google Expansion	1300 Bayhill Dr & 1350 Grundy Ln	San Bruno	440,000	Google	Q2 2026
567 Airport Blvd	567 Airport Blvd	Burlingame	241,790	Lane Partners	Q1 2026

Data Source: CoStar, U.S. Bureau of Labor Statistics, KM Research



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The information in this report was composed by the Kidder Mathews Research Group.

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COMMERCIAL BROKERAGE	\$9B AVERAGE ANNUAL TRANSACTION VOLUME	26.2M ANNUAL SALES SF	36.7M ANNUAL LEASING SF
ASSET SERVICES	53M SF MANAGEMENT PORTFOLIO SIZE	800+ ASSETS UNDER MANAGEMENT	250+ CLIENTS SERVED
VALUATION ADVISORY	2,400+ AVERAGE ANNUAL ASSIGNMENTS	41 TOTAL APPRAISERS	23 WITH MAI DESIGNATIONS