

MARKET TRENDS

PENINSULA OFFICE

MARKET DRIVERS

The San Francisco Peninsula office market started 2026 relatively slow with uneven demand across submarkets. However, overall conditions began to notably improve during the second half of 2025 after several years of volatility and is expected to continue in 2026. The overall vacancy rate ended 1Q 2026 at 21.9%, still elevated but increasingly stable, as the pace of vacancy rate growth is slowing. The reduction of sublease availability is also encouraging, suggesting that many occupiers have largely completed their initial downsizing and portfolio adjustments.

While declining rent trends persist, they appear close to stabilizing after several years of softening, suggesting that downward pressure may be easing. This trend, combined with improving leasing momentum, supports a positive outlook for the office market in 2026. Strengthening fundamentals in the neighboring San Francisco office market help further reinforce this view, as improved activity in the urban core has historically driven spillover demand into the Peninsula.

From an economic perspective, the Peninsula continues to benefit from its position within the Bay Area's core innovation economy. Investment in technology remains active, especially across artificial intelligence, cloud infrastructure, and enterprise software, even as hiring growth has slowed. These sectors continue to underpin local office demand, supporting a more stable outlook as companies remain disciplined but engaged in longer-term space planning.

LEASING ACTIVITY

The steady improvement in leasing activity continued during 1Q 2026 with more than 780,000 SF of activity, its highest quarterly total since 4Q 2024. The largest lease transaction was from Roblox for 325,000 at Bay Meadows Station in San Mateo. Recent leasing has been driven by a mix of smaller transactions with an added boost from select mid-sized and larger deals. The flight to quality remains pronounced, while older assets typically face longer lease-up timelines unless repositioned. However, tenants continue to refine their space requirements, leading to negative 313,279 SF of net absorption during the quarter.

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Market Summary

	1Q26	4Q25	1Q25	YOY Change
Direct Vacancy Rate	21.7%	20.0%	19.1%	260 bps
Availability Rate	21.9%	21.7%	25.5%	-360 bps
Asking Lease Rate/SF/Mo	\$5.50	\$5.77	\$5.95	-7.5%
Under Construction (SF)	778,331	1,293,779	1,291,443	-39.7%
	1Q26	4Q25	1Q25	YOY Change
Construction Deliveries (SF)	0	225,878	846,743	N/A
Leased SF	787,302	390,167	685,724	14.8%
Sold SF	294,965	643,807	407,946	-27.7%
Net Absorption (SF)	(313,279)	208,737	(433,850)	N/A

↑ **787K SF**
LEASING ACTIVITY

↑ **-313K SF**
NET ABSORPTION

↑ **21.7%**
DIRECT VACANCY RATE

↓ **\$5.50**
ASKING RENT (AVG)

↓ **0K SF**
NEW DELIVERIES

Year-Over-Year Trend

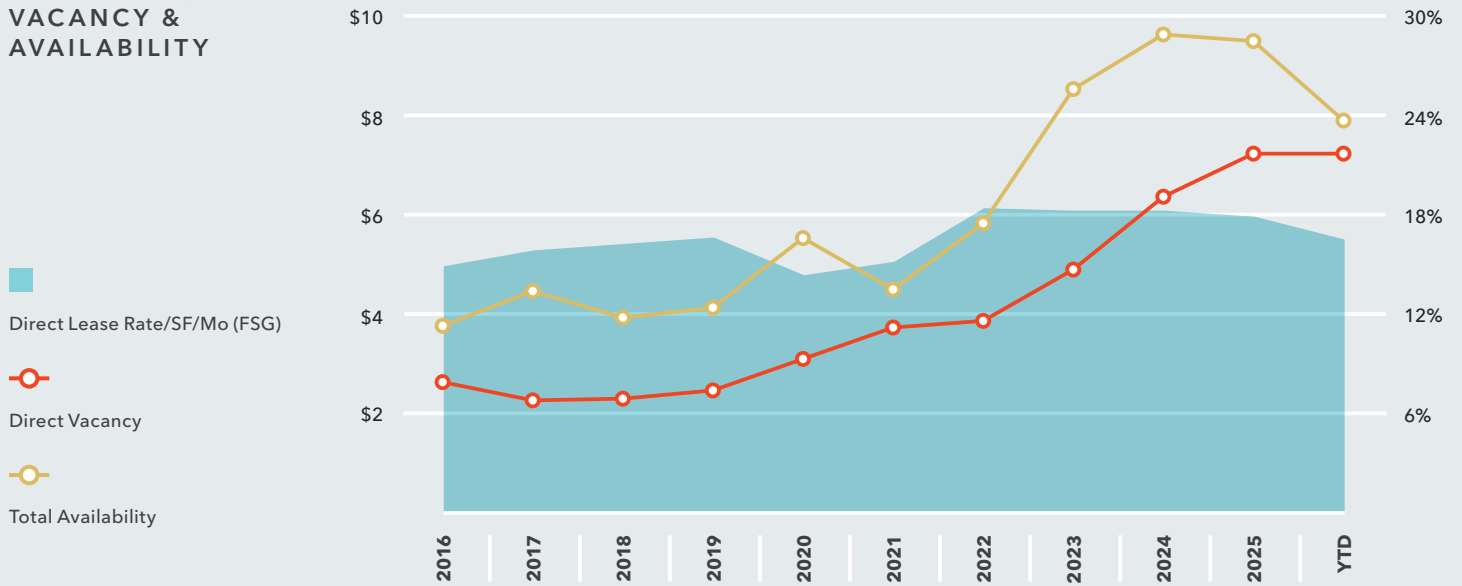
Market Highlights

DIRECT VACANCY rose to 21.7% in 1Q 2026

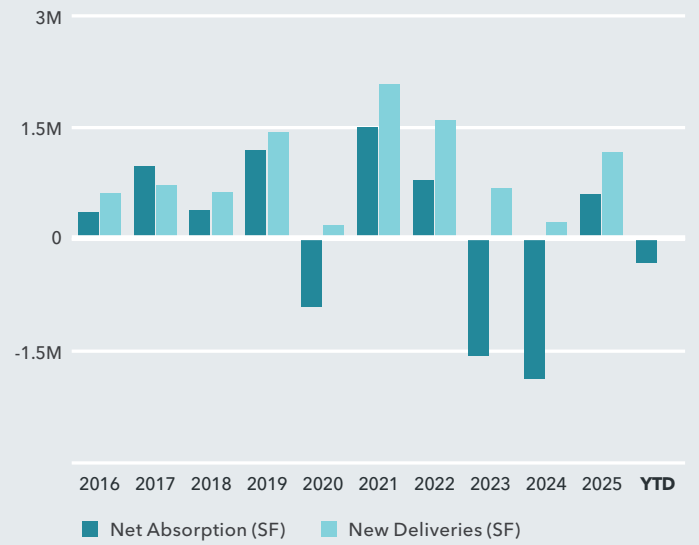
LEASING ACTIVITY ended the quarter with 787K SF

NET ABSORPTION was negative for the quarter at -313K SF

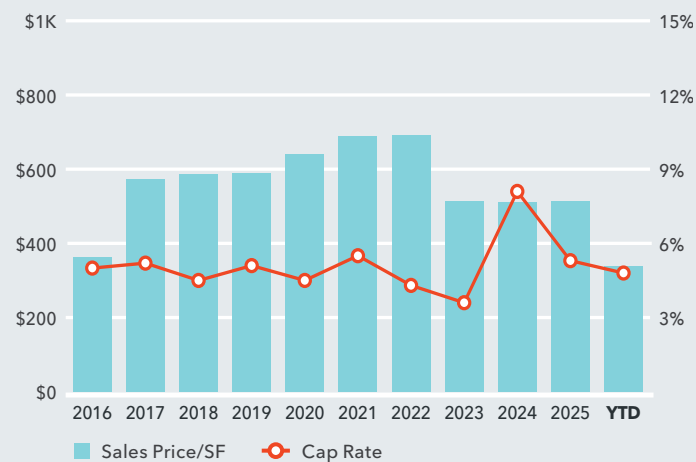
LEASE RATE, VACANCY & AVAILABILITY



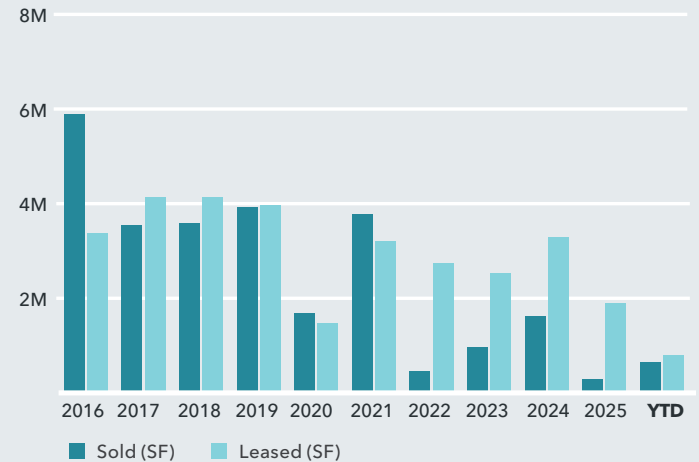
NET ABSORPTION & NEW DELIVERIES



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	1Q26 Total Net Absorption	2025 Total Net Absorption	1Q26 Leasing Activity	2025 Leasing Activity	Average Rental Rate (FS)
Daly City	432,922	0	5.4%	5.4%	5.4%	2,268	-8,084	4,004	6,741	\$3.03
Brisbane	856,248	0	20.7%	29.8%	27.4%	-37,417	117,172	26,300	220,676	\$3.57
South San Francisco	3,798,813	0	31.5%	35.2%	35.1%	-135,696	-88,796	33,236	128,705	\$3.60
San Bruno/Millbrae	1,351,350	440,000	9.7%	11.0%	9.8%	-2,723	-12,159	5,414	17,587	\$4.05
Burlingame	3,796,641	0	8.6%	16.4%	16.1%	-141,419	29,049	126,135	161,876	\$5.27
North County Totals	10,235,974	440,000	16.1%	20.6%	20.3%	-314,987	37,182	195,089	535,585	\$4.36
San Mateo	8,464,177	146,231	16.7%	21.9%	26.3%	39,622	56,309	89,934	717,942	\$5.32
Foster City	1,991,980	192,100	23.8%	29.9%	29.0%	30,076	-199,228	128,474	163,960	\$5.72
Redwood Shores	3,854,138	0	32.3%	0.0%	0.0%	-24,153	-122,526	104,977	119,544	\$5.60
Central County Totals	14,310,295	338,331	21.9%	17.1%	19.6%	45,545	-265,445	323,385	1,001,446	\$5.40
Belmont/San Carlos	2,379,441	0	31.5%	32.2%	35.5%	259	21,461	2,166	207,431	\$4.25
Redwood City	5,668,440	0	34.1%	35.8%	37.9%	88,566	-22,865	191,996	92,071	\$6.02
Menlo Park	7,507,436	0	16.4%	18.9%	21.5%	-132,662	686,864	74,666	296,178	\$7.05
South County Totals	15,555,317	0	25.2%	27.1%	29.6%	-43,837	685,460	268,828	595,680	\$6.22
Peninsula Totals	40,101,586	778,331	21.7%	21.9%	23.7%	-313,279	457,197	787,302	2,132,711	\$5.50
Class A	18,819,797	778,331	26.8%	31.3%	34.6%	56,589	523,698	477,625	1,300,863	\$6.69
Class B	15,996,483	0	19.8%	24.1%	25.3%	-342,930	-7,539	231,656	734,688	\$5.31
Class C	5,285,306	0	10.0%	10.1%	11.3%	-26,938	-58,962	78,021	97,160	\$4.01

LEASING ACTIVITY CONTINUED

Technology remains the primary driver of demand, but with a more focused footprint than in prior cycles. Growth in AI, cloud infrastructure, and digital platforms is supporting leasing interest, particularly along core transit corridors. Large AI commitments elsewhere in the Bay Area, including recent expansions by OpenAI and Anthropic, have reinforced the Peninsula's role as a strategic extension of San Francisco and Silicon Valley, offering access to talent with greater flexibility and newer inventory. Life Science and MedTech firms continue to add steady demand, while fintech and professional services tenants are rightsizing into efficient, high-quality space.

NEAR-TERM OUTLOOK

The near-term economic outlook for the San Francisco Peninsula is cautiously optimistic. While overall employment growth has moderated, funding for AI, cloud computing, life sciences, and enterprise software remain active, providing a stable base for business spending and office usage. Cost pressures, including housing affordability and operating expenses, continue to influence hiring and location decisions, encouraging firms to remain selective and disciplined.

However, access to talent, strong transportation connectivity, and proximity to major tech ecosystems in San Francisco and Silicon Valley position the Peninsula to perform well in the near-term.

The Peninsula office market is positioned for gradual and sustained improvement. Vacancy is expected to trend lower as sublease space is absorbed and converted to direct leases while leasing activity is expected to favor well-located, high-quality assets. While rent growth is likely to remain modest, selective upside is possible for well-located Class A properties as supply tightens and demand becomes more focused. Expansion in the technology and AI sectors is anticipated to drive future demand, complemented by steady growth from the broader employment sectors.

SIGNIFICANT SALE TRANSACTIONS 1Q 2026

Property	Submarket	SF	Sale Price	\$/SF	Buyer	Seller
601 Gateway Blvd (Part of a 7 Property Sale)	South San Francisco	221,383	\$62,287,058	\$281	Healthpeak Properties	Alexandria R.E. BXP
1000 Main St	Redwood City	22,762	\$13,956,000	\$613	Kilroy Realty Corporation Lane Ptns.	Lane Partners

SIGNIFICANT LEASE TRANSACTIONS 1Q 2026

Property	Submarket	SF	Transaction Date	Landlord	Tenant
2855 & 2955 S Delaware St,	San Mateo	325,000	February 2026	Bay Meadows Park Place Investors	Roblox
1001 1051 E Hillsdale Blvd	Foster City	147,219	February 2026	TR Parkside Towers	Replit
1900 Broadway St	Redwood City	120,000	February 2026	Lane Capital Partners	Cooley Goodward, LLP

SIGNIFICANT UNDER CONSTRUCTION

Property	Address	Submarket	SF	Owner	Delivery
YouTube HQ	1300 Bayhill Dr & 1350 Grundy Ln	San Bruno	440,000	Alphabet	Q2 2026
Gilead Campus	331 Lakeside Drive	Foster City	192,100	Gilead Sciences	Q2 2026
Parallels on Claremont	500 E 4th Ave & 435 E 3rd	San Mateo	146,231	Mecah Ventures	Q2 2027

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	<i>\$9B</i> AVERAGE ANNUAL TRANSACTION VOLUME	<i>32.4M</i> ANNUAL SALES SF	<i>32.5M</i> ANNUAL LEASING SF
ASSET SERVICES	<i>55M SF</i> MANAGEMENT PORTFOLIO SIZE	<i>800+</i> ASSETS UNDER MANAGEMENT	<i>250+</i> CLIENTS SERVED
VALUATION ADVISORY	<i>2,700+</i> AVERAGE ANNUAL ASSIGNMENTS	<i>42</i> TOTAL APPRAISERS	<i>23</i> WITH MAI DESIGNATIONS