Kidder Mathews

2Q 2026

MARKET TRENDS

PENINSULA *OFFICE*

MARKET DRIVERS

Leasing activity reached 1.2M SF during the first half of the year, approximately 20% ahead of the same period last year and placing the market on pace for its strongest annual leasing volume since 2019. Net absorption also remained positive with more than 472,947 SF, year-to-date, 13% above last years pace and signaling a meaningful improvement in occupancy trends. Together, these indicators suggest that tenant demand is strengthening as tenants shift their focus from space consolidation toward longer-term workplace planning and growth.

Artificial intelligence firms have been a leading driver of office demand across the Bay Area and the Peninsula, generating leasing activity in innovation-focused markets such as San Mateo, Redwood City, and Menlo Park. This demand is being supplemented by steady requirements from life sciences, medical technology, fintech, and professional services users, creating a broader and more balanced occupier base than in recent years.

Tenant preferences have evolved considerably. Rather than pursuing broad portfolio expansion, occupiers are increasingly focused on securing space that directly supports talent attraction, collaboration, and operational efficiency. As a result, leasing activity is concentrated in premium Class A buildings that offer modern amenities, flexible floorplates, and a strong employee experience. Properties located near transit infrastructure, particularly along Caltrain-served corridors, continue to attract outsized interest as companies prioritize accessibility and commute convenience for their workforce.

Market conditions increasingly favor high-quality assets. Competitive advantages have become concentrated in newer buildings, while older properties face greater leasing challenges unless supported by meaningful repositioning efforts and capital investment. At the same time, signs of renewed tenant confidence are emerging through selective preleasing activity, indicating a willingness among occupiers to secure future space in desirable projects before delivery. With limited new office construction underway, the future supply of premium inventory remains constrained, elevating the importance of existing top-tier assets across the region's most sought-after submarkets.

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Market Summary

	2Q26	1Q26	2Q25	YOY Change
Direct Vacancy Rate	21.4%	21.7%	21.2%	**20 bps**
Overall Vacancy Rate	23.8%	21.9%	28.0%	**-420 bps**
Direct Lease Rate	$5.50	$5.50	$5.90	**-6.7%**
Under Construction (SF)	712,462	778,331	504,415	**41.2%**

	2Q26	2026 YTD	2025 YTD	YOY Change
Construction Deliveries (SF)	0	0	876,743	**N/A**
Leased SF	408,471	1,195,773	1,001,523	**19.4%**
Sold SF	713,755	1,573,294	674,854	**133.1%**
Net Absorption (SF)	786,226	472,947	420,101	**12.6%**

↓ *408K SF*
LEASING ACTIVITY

↑ *786K SF*
NET ABSORPTION

↑ *21.4%*
DIRECT VACANCY RATE

↓ *$5.50*
ASKING RENT (AVG)

↔ *0K SF*
NEW DELIVERIES

Year-Over-Year Trend

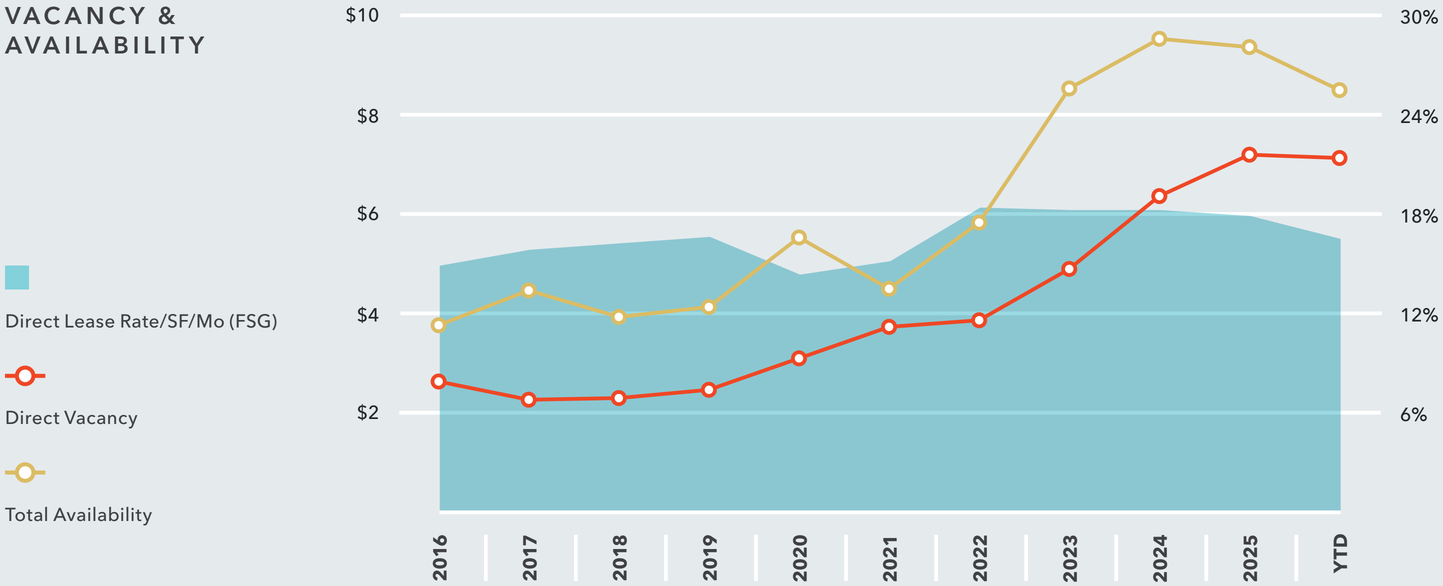
Market Highlights

DIRECT VACANCY ended the quarter at 21.4%

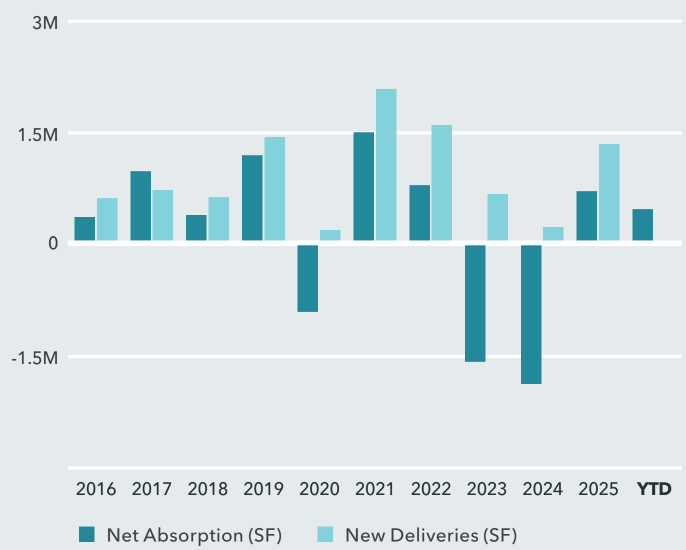
LEASING ACTIVITY totaled 1.2M SF through the first two quarters

NET ABSORPTION posted a total of 473K SF, YTD

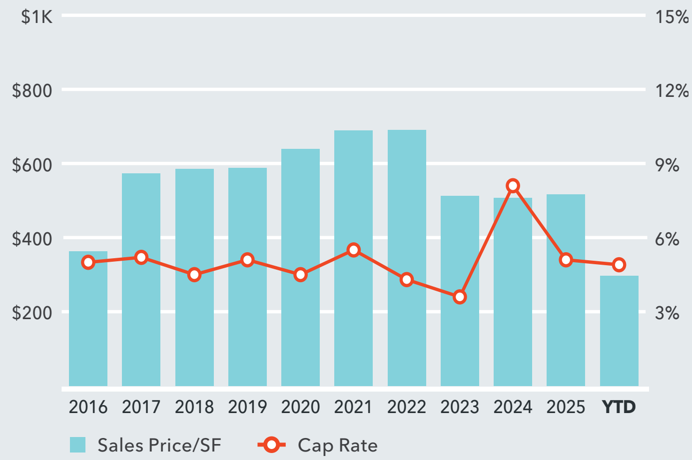
LEASE RATE, VACANCY & AVAILABILITY



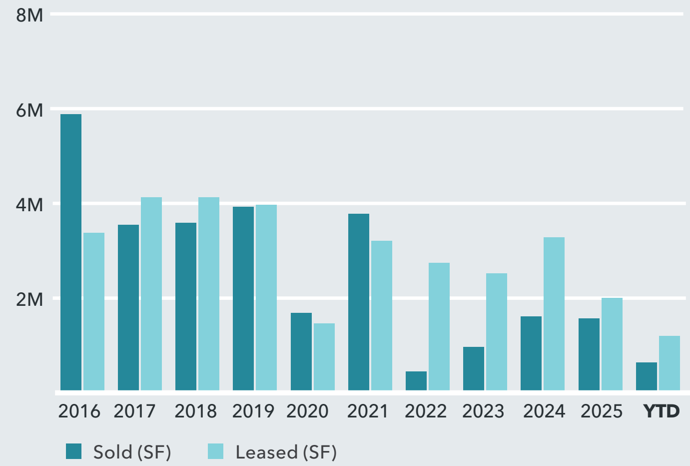
NET ABSORPTION & NEW DELIVERIES



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	2Q26 Total Net Absorption	YTD Total Net Absorption	2Q26 Leasing Activity	YTD Leasing Activity	Average Rental Rate (FS)
Daly City	432,922	0	5.3%	5.3%	5.3%	341	2,609	1,517	5,521	$3.12
Brisbane	856,248	0	16.9%	23.7%	24.0%	52,693	15,276	6,177	32,477	$3.57
South San Francisco	3,833,510	0	30.4%	34.2%	34.1%	25,957	-109,739	60,213	93,449	$3.60
San Bruno/Millbrae	1,351,350	440,000	9.9%	10.2%	7.2%	10,621	7,898	4,674	10,088	$4.05
Burlingame	3,788,343	0	6.8%	7.6%	9.7%	332,850	191,431	42,837	168,972	$5.29
North County Totals	**10,262,373**	**440,000**	**15.2%**	**16.9%**	**17.3%**	**422,462**	**107,475**	**115,418**	**310,507**	**$4.23**
San Mateo	8,521,779	66,782	16.9%	21.5%	26.0%	47,768	87,390	80,839	170,773	$5.32
Foster City	1,993,352	192,100	25.7%	31.5%	26.5%	-31,982	-1,906	381	128,855	$5.55
Redwood Shores	3,974,744	0	32.7%	35.8%	38.7%	0	-24,153	0	104,977	$5.60
Central County Totals	**14,489,875**	**258,882**	**22.4%**	**26.8%**	**29.5%**	**15,786**	**61,331**	**81,220**	**404,605**	**$5.45**
Belmont/San Carlos	2,379,607	0	32.0%	32.7%	34.7%	-10,563	-10,304	36,515	38,681	$4.25
Redwood City	5,804,885	13,580	36.5%	37.4%	36.0%	9,313	97,879	99,562	291,558	$5.96
Menlo Park	7,560,754	0	12.9%	14.3%	18.0%	349,228	216,566	75,756	150,422	$7.05
South County Totals	**15,745,246**	**13,580**	**24.5%**	**25.6%**	**27.2%**	**347,978**	**304,141**	**211,833**	**480,661**	**$6.18**
Peninsula Totals	**40,497,494**	**712,462**	**21.4%**	**23.8%**	**25.5%**	**786,226**	**472,947**	**408,471**	**1,195,773**	**$5.50**
Class A	19,167,963	712,462	27.4%	31.2%	33.2%	321,086	377,675	185,040	662,665	$6.62
Class B	16,069,080	0	19.5%	21.4%	23.7%	440,050	97,120	163,258	394,914	$5.25
Class C	5,260,451	0	9.8%	9.9%	11.8%	25,090	-1,848	60,173	138,194	$4.00

ECONOMIC OVERVIEW

The San Francisco Peninsula continues to benefit from its position at the center of the Bay Area innovation economy. Employment growth remains closely tied to technology, artificial intelligence, life sciences, and advanced business services, with emerging technology investment supporting business expansion plans across the region. Capital markets activity remains selective, although investor interest has strengthened for well-located institutional assets with durable tenant demand. Business sentiment has become more positive as occupiers move from short-term space optimization toward longer-range workplace strategies. The Peninsula's access to both Silicon Valley and San Francisco talent pools continue to reinforce its role as a preferred location for growth-oriented companies.

NEAR TERM OUTLOOK

Over the near-term, market performance is expected to remain closely tied to the expansion trajectory of artificial intelligence and other innovation-driven industries. Continued venture capital investment and corporate hiring within technology-related sectors should provide support for leasing activity, particularly in premium transit-oriented locations. Demand is likely to remain concentrated in high-quality buildings, reinforcing the separation between top-performing assets and older competitive properties. Limited new development should help preserve the value of existing institutional-grade inventory, while declining portfolio consolidation activity may support a more stable occupancy environment. Economic uncertainty and cautious corporate decision-making remain potential headwinds, although current demand trends point toward gradual market improvement.

SIGNIFICANT SALE TRANSACTIONS 2Q 2026

Property	Submarket	SF	Sale Price	$/SF	Buyer	Seller
1400 Seaport Blvd	Redwood City	303,015	$94,424,500	$312	Farallon Capital Management, LLC	Divco West Serv., LLC
10 Twin Dolphin Dr	Foster City/Redwood Shrs	263,024	$56,000,000	$213	Minkoff Group	IQHQ
1100-1300 Seaport Blvd	Redwood City	304,607	$45,576,000	$150	Farallon Capital Management LLC	Google

SIGNIFICANT LEASE TRANSACTIONS 2Q 2026

Property	Submarket	SF	Transaction Date	Landlord	Tenant
1051 E Hillsdale Blvd	Foster City	52,642	June 2026	Exabeam (Sublessor)	Replit
305 Walnut St	Redwood City	51,550	April 2026	Menlo Equities	Sunday Robotics
1020 Marsh Rd	Menlo Park	34,350	April 2026	Bohannon Companies	Matic Robots

SIGNIFICANT UNDER CONSTRUCTION

Property	Address	Submarket	SF	Owner	Delivery Date
YouTube HQ	1300 Bayhill Dr & 1350 Grundy Ln	San Bruno	440,000	Alphabet	3Q 2026
Gilead Campus	331 Lakeside Drive	Foster City	192,100	Gilead Sciences	3Q 2026
Parallels on Claremont	500 E 4th Ave & 435 E 3rd	San Mateo	146,231	Mecah Ventures	2Q 2027

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

Kidder Mathews

Kidder Mathews is the largest fully independent commercial real estate firm in the Western U.S., with over 900 real estate professionals and staff in 19 offices in Washington, Oregon, California, Nevada, and Arizona. We offer a complete range of brokerage, appraisal, asset services, consulting, and debt & equity finance services for all property types.

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COMMERCIAL BROKERAGE	$9B AVERAGE ANNUAL TRANSACTION VOLUME	32.4M ANNUAL SALES SF	32.5M ANNUAL LEASING SF
ASSET SERVICES	54M SF MANAGEMENT PORTFOLIO SIZE	800+ ASSETS UNDER MANAGEMENT	250+ CLIENTS SERVED
VALUATION ADVISORY	2,700+ AVERAGE ANNUAL ASSIGNMENTS	42 TOTAL APPRAISERS	23 WITH MAI DESIGNATIONS