

MARKET TRENDS

PENINSULA OFFICE

MARKET DRIVERS

Leasing momentum continues to build across the market. After a strong third quarter with 1.4M SF of leasing activity, year-to-date total volume has reached 2.6M SF, roughly 34% ahead of last year and putting the market on track for its strongest leasing performance since 2019. Year-to-date net absorption has also topped 600,000 SF, signaling that occupancy conditions are stabilizing and gradually improving after several years of tenant downsizing and space reductions.

Demand continues to be largely driven by the growth of artificial intelligence companies, which have become increasingly active throughout the Peninsula and broader Bay Area. Markets such as San Mateo, Redwood City, and Menlo Park are benefiting from this expansion, while recent demand from life sciences, medical technology, fintech, and professional services firms is helping create a healthier and more diversified tenant base than we've seen in recent years.

At the same time, tenants are becoming more selective about the space they lease. Rather than taking more space for the sake of growth, companies are prioritizing offices that help attract employees, encourage collaboration, and improve workplace efficiency. As a result, demand remains heavily focused on well-located Class A properties with modern amenities, flexible layouts, and convenient access to transit. Buildings near Caltrain stations continue to stand out as employers place greater emphasis on commute accessibility and employee experience.

This flight to quality is creating a widening gap between top-tier assets and older buildings. Newer, Class A institutional-quality properties continue to capture the majority of leasing demand, while aging assets are often facing longer lease-up periods unless they receive meaningful upgrades. Encouragingly, some tenants are beginning to make longer-term real estate decisions, including selective preleasing activity, which reflects growing confidence in future business needs. With relatively little new office construction underway, the supply of premium space is expected to remain limited, supporting the long-term outlook for the market's most desirable properties.

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Market Summary

	3Q26	2Q26	3Q25	YOY Change
Direct Vacancy Rate	21.6%	21.4%	22.1%	-50 bps
Overall Vacancy Rate	24.3%	23.8%	27.5%	-320 bps
Direct Lease Rate	\$5.50	\$5.50	\$5.96	-7.6%
Under Construction (SF)	478,812	712,462	457,415	4.7%

	3Q26	2026 YTD	2025 YTD	YOY Change
Construction Deliveries (SF)	181,000	181,000	1,493,763	-87.9%
Leased SF	1,391,654	2,587,427	1,931,394	34.0%
Sold SF	884,075	2,600,394	1,318,604	97.2%
Net Absorption (SF)	133,213	606,160	795,285	-23.8%

3Q 2026

↑ **1.4M SF**
LEASING ACTIVITY

↓ **133K SF**
NET ABSORPTION

↓ **21.6%**
DIRECT
VACANCY RATE

↓ **\$5.50**
ASKING RENT (AVG)

↓ **181K SF**
NEW DELIVERIES

Year-Over-Year Trend

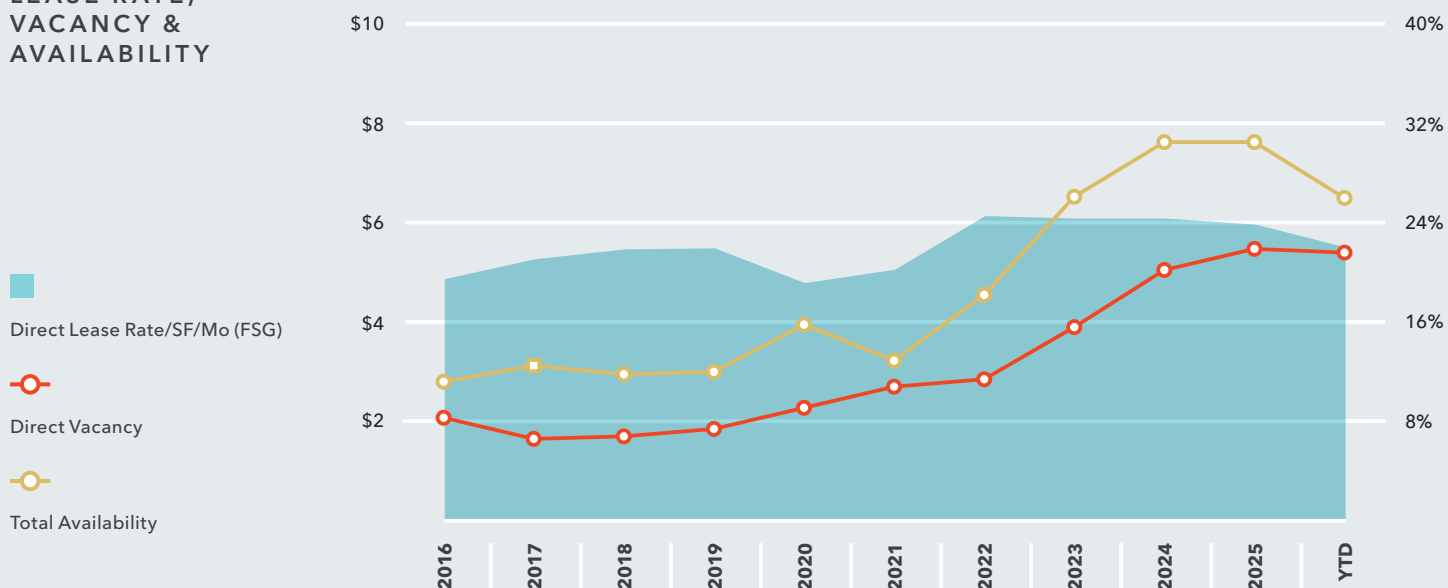
Market Highlights

DIRECT VACANCY ended the quarter at 21.6%

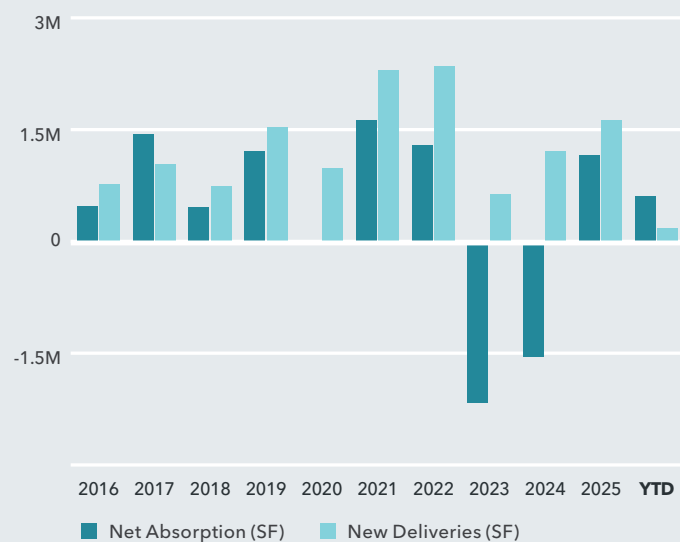
LEASING ACTIVITY totaled 2.6M SF, YTD

NET ABSORPTION posted a total of 606K SF, YTD

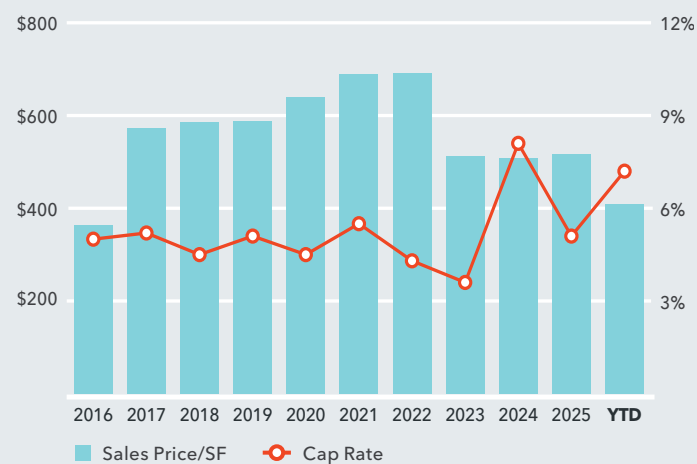
LEASE RATE, VACANCY & AVAILABILITY



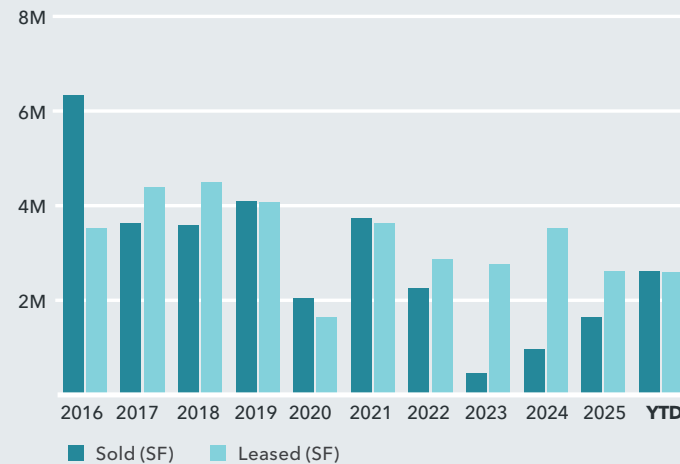
NET ABSORPTION & NEW DELIVERIES



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	3Q26 Total Net Absorption	YTD Total Net Absorption	3Q26 Leasing Activity	YTD Leasing Activity	Average Rental Rate (FS)
Daly City	324,648	0	8.1%	8.1%	8.1%	-11,246	-8,637	0	5,521	\$3.18
Brisbane	1,840,966	0	18.1%	28.2%	40.8%	-22,651	-7,375	27,467	59,944	\$3.57
South San Francisco	7,206,408	0	24.1%	27.9%	31.2%	89,281	-20,458	86,908	180,357	\$3.77
San Bruno/Millbrae	1,485,246	440,000	8.5%	13.1%	11.9%	5,800	13,698	2,012	12,100	\$4.30
Burlingame	3,450,206	0	6.1%	7.0%	16.7%	19,284	210,715	30,244	199,216	\$5.53
North County Totals	14,307,474	440,000	14.5%	17.1%	21.0%	80,468	187,943	146,631	457,138	\$4.34
San Mateo	7,978,063	38,812	22.3%	27.6%	30.5%	-85,541	1,849	133,323	304,096	\$5.14
Foster City	2,210,246	0	17.9%	20.4%	20.1%	175,046	173,140	0	128,855	\$5.81
Redwood Shores	4,026,772	0	34.4%	38.1%	40.8%	-98,917	-123,070	59,666	164,643	\$5.60
Central County Totals	14,215,081	38,812	25.1%	29.5%	31.8%	-9,412	51,919	192,989	597,594	\$5.37
Belmont/San Carlos	2,423,686	0	28.3%	30.2%	35.9%	-28,270	-38,574	8,338	47,019	\$4.25
Redwood City	5,788,171	0	36.1%	37.2%	30.0%	108,845	206,724	993,329	1,284,887	\$5.97
Menlo Park	7,083,020	0	14.7%	16.0%	18.0%	-18,418	198,148	50,367	200,789	\$7.10
South County Totals	15,294,877	0	24.9%	26.2%	25.4%	62,157	366,298	1,052,034	1,532,695	\$6.10
Peninsula Totals	43,817,432	478,812	21.6%	24.3%	26.0%	133,213	606,160	1,391,654	2,587,427	\$5.50
Class A	23,965,058	478,812	25.5%	30.0%	31.8%	160,488	538,163	832,540	1,495,205	\$6.60
Class B	15,674,842	0	21.9%	23.8%	27.8%	-27,624	69,496	543,008	937,922	\$5.22
Class C	4,177,532	0	7.6%	7.7%	10.2%	349	-1,499	16,106	154,300	\$4.02

ECONOMIC REVIEW

The San Mateo County economy continues to benefit from its position within the Bay Area's innovation economy. Employment conditions remain solid, with unemployment below 4%, while venture capital funding remains active, particularly among AI and life science companies.

Life sciences and biotechnology also continue to be key drivers of growth, especially in South San Francisco, where a well-established biotech cluster attracts investment, research activity, and highly skilled talent. Healthcare and medical technology firms are also expanding, helping diversify the employment base beyond traditional technology industries.

The economic outlook has improved as companies move beyond cost-cutting and focus more on growth, hiring, and long-term planning. Investment remains heavily concentrated in artificial intelligence and other innovation-led sectors, supporting new business formation and increased hiring activity. Together, these trends are helping strengthen business confidence and creating a more supportive environment for office demand across the Peninsula.

NEAR-TERM OUTLOOK

Looking ahead, market performance will likely remain closely tied to growth within AI and other innovation-driven industries. Continued hiring, venture capital investment, and business expansion across these sectors should provide an important source of leasing demand, particularly for high-quality buildings in transit-oriented locations.

The market is also expected to remain highly bifurcated. Premium Class A properties should continue to outperform, while older and less competitive buildings may face ongoing challenges as tenants remain selective. Limited new development will help prevent an oversupply of top-quality space and should support the value of existing institutional-grade assets.

While economic uncertainty and cautious corporate decision-making could slow the pace of recovery, the overall direction of the market appears increasingly positive. Leasing activity has strengthened, occupancy trends are improving, and many companies are shifting from short-term space reductions toward longer-term workplace planning. Taken together, these factors suggest the office market is gradually moving into a more stable and balanced phase of the recovery cycle.

SIGNIFICANT SALE TRANSACTIONS 3Q 2026

Property	Submarket	SF	Sale Price	\$/SF	Buyer	Seller
1400 Veterans Blvd	Redwood City	62,500	\$62,200,000	\$995	Invesco Advisers	Hunter Properties
550 Allerton St	Redwood City	76,649	\$27,260,000	\$356	Shorenstein Properties	Premia Capital
100 Redwood Shores Pky	Belmont/San Carlos	62,927	\$16,500,000	\$262	Peninsula Land & Capital	Office Properties Income Trust

SIGNIFICANT LEASE TRANSACTIONS 3Q 2026

Property	Submarket	SF	Transaction Date	Type	Tenant
900 Jefferson Ave	Redwood City	242,935	August 2026	Renewal	Box
305 Walnut St	Redwood City	88,411	July 2026	Renewal & Expansion	Sunday Robotics
20 Davis Dr	Belmont	84,148	July 2026	Renewal	RingCentral

SIGNIFICANT UNDER CONSTRUCTION

Property	Address	Submarket	SF	Owner	Delivery Date
YouTube HQ	1300 Bayhill Dr & 1350 Grundy Ln	San Bruno	440,000	Alphabet	4Q 2026
Parallels on Claremont	500 E 4th Ave & 435 E 3rd Ave	San Mateo	38,812	Mecah Ventures	1Q 2027

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



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COMMERCIAL
BROKERAGE

\$9B

AVERAGE ANNUAL
TRANSACTION VOLUME

32.4M

ANNUAL
SALES SF

32.5M

ANNUAL
LEASING SFASSET
SERVICES

55M+ SF

MANAGEMENT
PORTFOLIO SIZE

800+

ASSETS UNDER
MANAGEMENT

250+

CLIENTS
SERVEDVALUATION
ADVISORY

2,700+

AVERAGE ANNUAL
ASSIGNMENTS

42

TOTAL
APPRAISERS

23

WITH MAI
DESIGNATIONS