

MARKET TRENDS

SAN FRANCISCO OFFICE

MARKET DRIVERS

The San Francisco office market continues to show signs of improving fundamentals as leasing momentum builds alongside a growing investment in the city, despite persistently high vacancy rates. Leasing activity totaled more than 3.4M SF during 1Q 2026, led primarily by AI-focused and traditional technology firms, with incremental demand emerging from more conventional office users.

This marks the sixth consecutive quarter with more than 2.0M SF of leasing activity and the second time in the past 12 months that volume has surpassed 3.0M SF. Net absorption totaled just under 800K SF for the quarter, representing the strongest total since 2019 and the second consecutive quarter with more than 500,000 SF. These indicators illustrate a strengthening and expanding market after several years of sustained contraction.

During the quarter, approximately 3% of leases exceeded 50,000 SF by deal count, while roughly 55% were under 5,000 SF. This distribution highlights an ongoing shift toward smaller footprints, shorter lease commitments, and longer decision-making cycles, as occupiers balance near-term uncertainty with the need for future flexibility.

Several high-profile transactions point to confidence in San Francisco's long-term value as an innovation center. OpenAI continues to expand its Mission Bay presence by leasing 222,000 SF at 1800 Owens, bringing its total footprint in the city to approximately 1.0M SF across multiple buildings, while simultaneously committing to a sizable campus in Mountain View.

Similarly, Anthropic executed one of the city's largest post-pandemic office leases in January, securing 420,000 SF at 300 Howard in addition to 102,000 SF at 400 Howard in March and 104,000 at 505 Howard late last year. These transactions represent meaningful, long-term commitments and have helped generate positive net absorption in select submarkets.

Despite two consecutive quarterly declines, vacancy rates are expected to remain elevated in the near term, as tenant demand and forward-facing momentum builds. Leasing demand has generally been concentrated in newer, well-located buildings that support collaboration, offer robust amenities, and provide flexibility for future growth, reinforcing a widening performance gap between high-quality assets (particularly those with views) and older, less flexible inventory.

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Market Summary

	1Q26	4Q25	1Q25	YOY Change
Direct Vacancy Rate	24.9%	26.5%	27.0%	-210 bps
Overall Vacancy Rate	28.0%	30.1%	31.7%	-370 bps
FIDI Direct Lease Rate (A&B)	\$48.70	\$47.99	\$47.11	3.4%
Under Construction (SF)	0	0	0	N/A
	1Q26	4Q25	1Q25	YOY Change
Leasing Activity (SF)	3,417,058	2,389,819	2,816,187	43.0%
Net Absorption (SF)	854,854	503,428	-258,531	N/A
New Deliveries (SF)	0	0	212,796	N/A
Sale Volume (SF)	1,538,995	4,983,120	968,558	-69.1%

↑ **3.4M SF**
LEASING ACTIVITY

↑ **855K SF**
NET ABSORPTION

↓ **28%**
TOTAL VACANCY RATE

↑ **\$48.70**
ASKING RENT (AVG)

↔ **0 SF**
NEW DELIVERIES

Year-Over-Year Trend

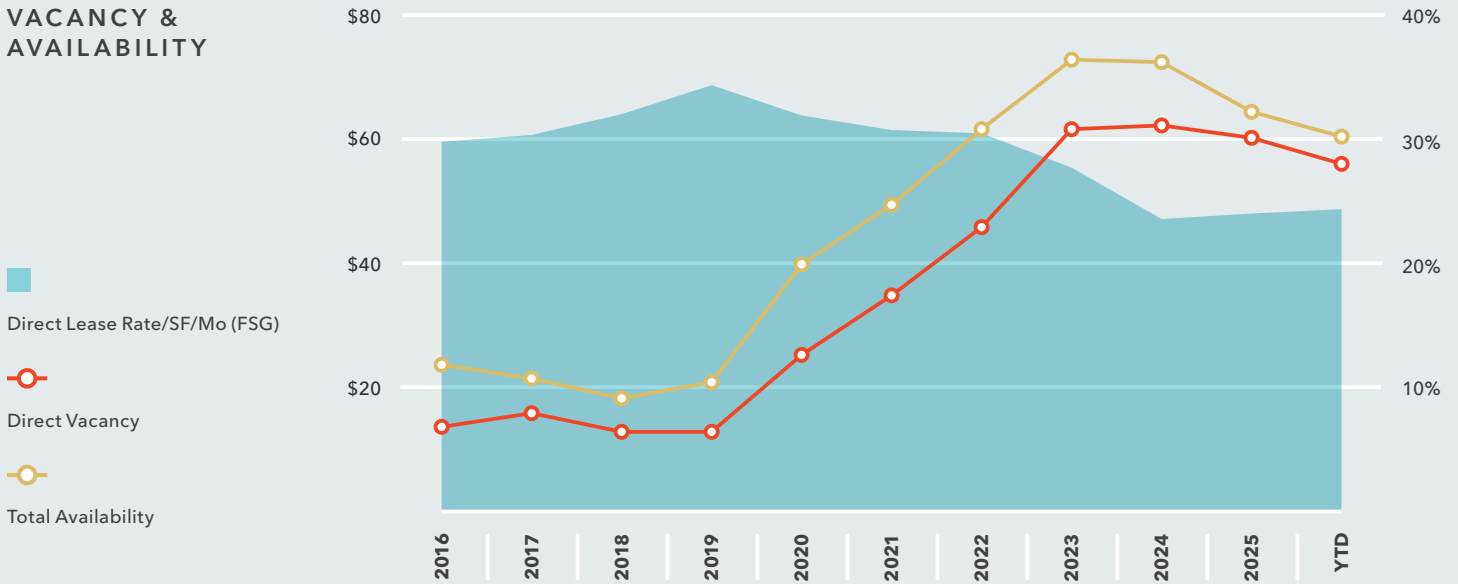
Market Highlights

NET ABSORPTION ended the quarter with 855K SF, marketwide

LEASING ACTIVITY totaled 3.4M SF during the quarter

ASKING RENTS increased compared to last year, from \$47.11 to \$48.70 Full Service Gross

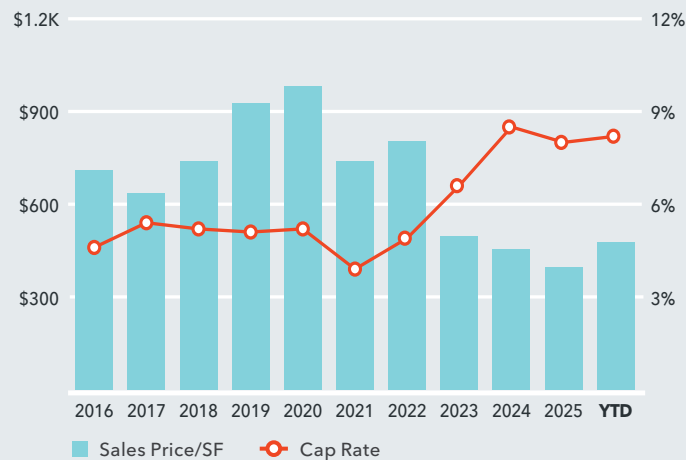
LEASE RATE, VACANCY & AVAILABILITY



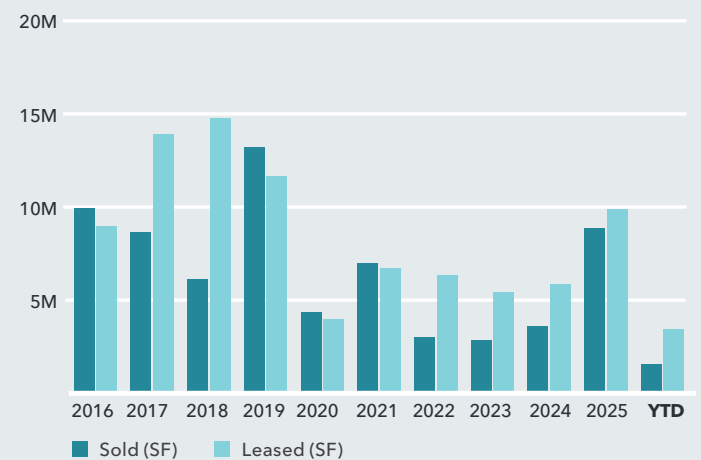
NET ABSORPTION & NEW DELIVERIES



AVERAGE SALES PRICE/SF & CAP RATE



SALE VOLUME & LEASING ACTIVITY



SUBMARKET STATISTICS

Submarket	Total Inventory	Under Construction	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	Total Availability Rate	1Q26 Total Net Absorption	2025 Total Net Absorption	1Q26 Leasing Activity	2025 Leasing Activity	Direct Rental Rate
Civic Center	637,893	0	26.9%	0.7%	27.6%	21.3%	-6,442	-11,661	4,421	3,111	\$31.29
Financial District	30,770,770	0	27.8%	1.6%	29.5%	31.1%	16,685	191,798	918,287	3,413,069	\$50.55
Jackson Square	2,430,097	0	20.0%	0.6%	20.6%	23.5%	-43,253	78,210	59,545	355,150	\$43.58
Mid Market	4,971,939	0	36.0%	7.2%	43.2%	49.7%	-48,615	58,869	8,378	349,426	\$43.74
Mission Bay/China Basin	4,497,149	0	8.7%	4.9%	13.7%	14.5%	269,620	170,472	424,307	619,745	\$54.55
Mission/Potrero	1,825,505	0	10.1%	0.7%	10.8%	13.6%	16,478	73,231	33,031	228,063	\$42.31
Rincon/South Beach	6,923,708	0	22.4%	8.2%	30.6%	33.8%	-75,593	-288,923	240,576	1,279,845	\$44.10
Showplace Square	4,496,969	0	19.1%	4.7%	23.8%	35.4%	93,603	188,383	37,392	288,382	\$41.05
South Financial District	29,459,286	0	22.5%	2.9%	25.5%	27.6%	388,478	-252,519	1,309,690	2,340,365	\$50.90
SOMA	3,651,403	0	27.3%	1.3%	28.6%	30.8%	147,865	61,146	81,745	280,921	\$34.12
Union Square	5,311,083	0	30.9%	1.2%	32.1%	32.3%	-114,948	71,713	123,997	285,346	\$44.07
Van Ness Corridor/Chinatown	1,655,177	0	7.8%	0.9%	8.7%	14.8%	88,418	5,637	6,146	93,512	\$42.80
Waterfront/North Beach	3,802,997	0	25.4%	0.4%	25.8%	26.9%	103,122	97,755	87,345	276,353	\$73.35
Yerba Buena	3,597,015	0	42.1%	9.4%	51.5%	54.3%	19,436	-504,024	82,198	71,879	\$40.98
San Francisco Totals	104,030,991	0	24.9%	3.1%	28.0%	30.5%	854,854	-59,913	3,417,058	9,885,167	\$48.70
Class A	62,008,129	0	24.9%	3.2%	28.1%	30.5%	487,313	-153,667	2,274,333	6,195,458	\$54.83
Class B	35,251,626	0	25.7%	3.5%	29.3%	32.6%	364,185	53,724	967,831	3,301,250	\$43.12
Class C	6,771,236	0	20.7%	0.3%	21.0%	20.0%	3,356	40,030	174,894	388,459	\$35.14

MARKET DRIVERS CONTINUED

Sublease availability also declined, dropping 15% year-over-year to 4.6M SF, marking its lowest level since early 2020. Sublease space now represents approximately 15% of total availability, a significant decrease from its peak above 40% and closely aligned with pre-pandemic norms. This improvement reflects a combination of active leasing, tenant space recapture associated with return-to-office strategies, and conversion of sublease inventory into direct lease offerings, illustrating the continuing shift towards positive market conditions.

ECONOMIC REVIEW

The broader U.S. economy continues to expand, though muted job creation has kept office leasing demand relatively measured. Across major markets, office tenants are making disciplined and strategic real estate decisions, prioritizing space efficiency, flexibility, and long-term adaptability over aggressive growth.

San Francisco's economy is growing at a modest pace, with employment gains remaining uneven as firms hire selectively rather than at scale. Activity continues to be led by AI, advanced technology, life sciences, and professional services, supported by sustained venture capital investment and the city's deep talent pool. At the same time, elevated office vacancy, high housing and operating costs, and cautious hiring amid broader economic uncertainty are tempering the pace of recovery, even as momentum builds within the city's leading growth sectors.

NEAR-TERM OUTLOOK

With more than 29M SF of vacant space and nearly 32M SF of available space on the market, near-term headwinds persist. However, the recent rise in leasing momentum suggests the market may have bottomed out in late 2025 and is now entering an early recovery phase. Analysts project a return to positive net absorption through 2026 with modest vacancy compression, supported by improving tenant demand, limited new supply, and a more stable pipeline of active tenant requirements.

Workplace trends continue to evolve. Hybrid work remains the dominant model, with most employees commuting Tuesday through Thursday, contributing to a noticeable increase in downtown activity, including more retail and restaurant operators who want to participate in the resurgence. This shift is fostering a renewed emphasis on in-person collaboration and cultural cohesion, even as pre-pandemic patterns remain distant. Employers are increasingly focused on balancing flexibility with operational efficiency, shaping demand for high-quality, well-located and amenity-rich office environments.

SIGNIFICANT SALE TRANSACTIONS 1Q 2026

Property	Submarket	SF	Sale Price	\$/SF	Buyer	Seller
Transamerica Center	Financial District	1,009,000	\$691,324,000	\$786	Yoda PLC	Bayerische Versorgungskammer
240 Stockton St	Union Square	40,536	\$44,000,000	\$1,085	Moran Capital, LLC	Grosvenor
360 Pine St	Financial District	20,295	\$9,200,000	\$453	Forderer Property Group	Clint Reilly Landmark Properties
1035 Battery St	Waterfront/North Beach	13,908	\$5,930,000	\$426	Rivet Investments, LLC	1035 Battery Street Owner, LLC
212-214 California St	Financial District	11,000	\$3,700,000	\$336	212-4 California, LLC	212-214 California Street, LLC

SIGNIFICANT LEASE TRANSACTIONS 1Q 2026

Property	Submarket	SF	Transaction Date	Landlord	Tenant
300 Howard St	South Financial District	419,172	January 2026	Blackstone	Anthropic
1800 Owens St	Mission Bay/China Basin	222,411	February 2026	KRE Exchange Owner, LLC	OpenAI
425 Market St	South Financial District	115,014	February 2026	MetLife	Charles Schwab
225 Bush St	Financial District	82,526	February 2026	Kylli, Inc.	Crusoe
181 Fremont St	South Financial District	80,561	February 2026	Jay Paul Company	Perplexity

Data Source: CoStar, Kidder Mathews, Bureau of Labor Statistics, California EDD



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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