Kidder Mathews

MARKET TRENDS

SAN FRANCISCO *OFFICE*

2Q 2026

MARKET DRIVERS

Artificial intelligence remains the primary driver of office demand and the dominant force shaping leasing activity across San Francisco. Leasing momentum accelerated through the first half of 2026, reaching levels not seen since the city's last major expansion cycle. By the end of 2Q, San Francisco recorded its seventh consecutive quarter with more than 2.0M SF of leasing activity, including 3.6M SF in 2Q alone. Net absorption reached 830K SF for the quarter, bringing the year-to-date total to 1.7M SF. Both metrics are on pace for their strongest annual performance since 2018, signaling a market that has officially moved beyond stabilization and into the early stages of recovery.

The total vacancy rate declined to 27.2% at quarter-end, down substantially from its recent peak of 32% in 2024, while overall availability continued to also trend lower. Sublease inventory has also tightened significantly and now represents just 14.3% of the total available space, down from a record high of 44% in 2020. The decline reflects a combination of strong leasing activity, increased space utilization, and expiring subleases reverting to direct availability.

Demand remains concentrated in high-quality buildings offering modern layouts, enhanced amenities, and future growth flexibility. While leasing activity has broadened across asset classes, Trophy and Class A properties continue to capture a disproportionate share of demand. Through mid-year, Class A assets accounted for 55% of leasing activity and 66% of total net absorption, while older and less adaptable buildings continue to lag.

Large commitments from leading AI companies have reinforced confidence in San Francisco's premier office corridors and innovation-focused submarkets. At the same time, the broader tenant base remains focused on flexibility, efficiency, and measured growth. While several large transactions have driven a significant portion of leasing volume, most occupiers continue to pursue smaller space requirements.

Over the past six months, approximately 3% of all lease transactions in San Francisco exceeded 50,000 SF, while 60% were for spaces under 5,000 SF. This distribution reflects an ongoing preference for smaller footprints, greater flexibility, and longer decision-making timelines as companies balance growth opportunities with economic uncertainty.

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Market Summary

	2Q26	1Q26	2Q25	YOY Change
Direct Vacancy Rate	24.7%	24.9%	27.1%	-240 bps
Overall Vacancy Rate	27.2%	28.0%	31.6%	-440 bps
FIDI Direct Lease Rate (A&B)	$49.10	$48.70	$47.11	4.2%
Under Construction (SF)	381,750	0	0	N/A
	2Q26	**2026 YTD**	**2025 YTD**	**YOY Change**
Leasing Activity (SF)	3,572,405	6,989,463	5,680,716	23.0%
Net Absorption (SF)	829,597	1,684,451	-614,137	N/A
New Deliveries (SF)	0	0	212,796	N/A
Sale Volume (SF)	1,377,134	3,313,023	3,214,964	3.1%

↑ *3.6M SF* LEASING ACTIVITY

↑ *830K SF* NET ABSORPTION

↓ *27.2%* TOTAL VACANCY RATE

↑ *$49.10* ASKING RENT (AVG)

↔ *0 SF* NEW DELIVERIES

Year-Over-Year Trend

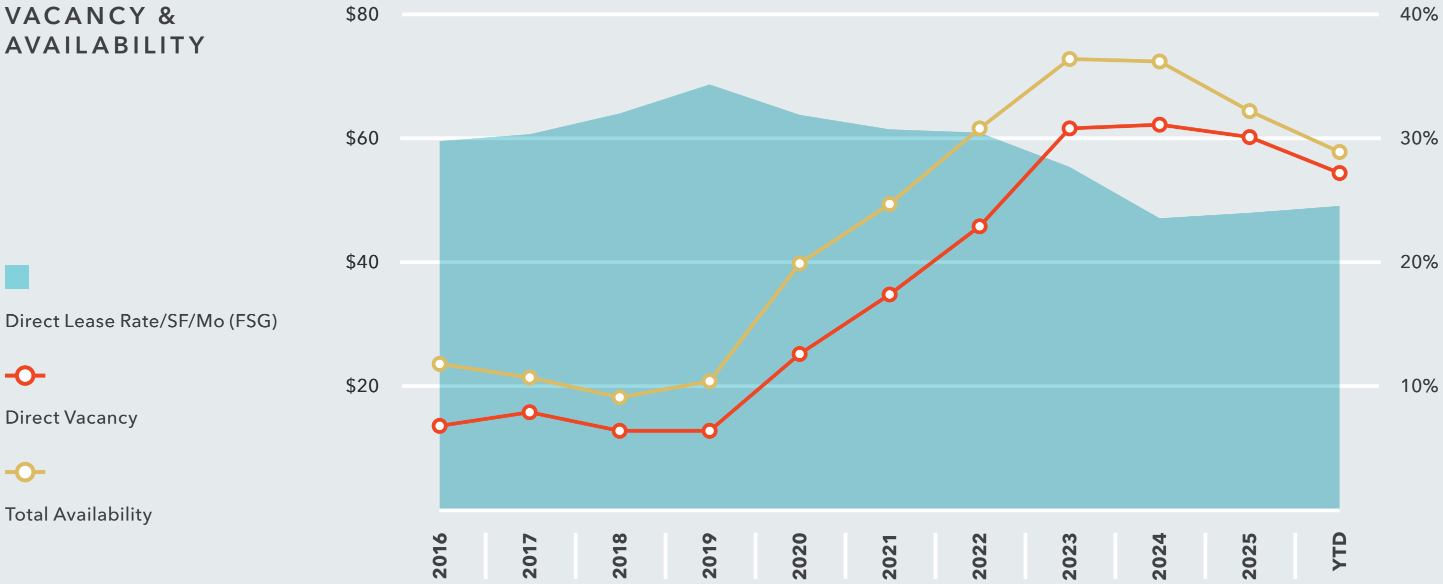
Market Highlights

NET ABSORPTION ended the quarter with 830K SF, marketwide

LEASING ACTIVITY totaled 3.6M SF during the quarter

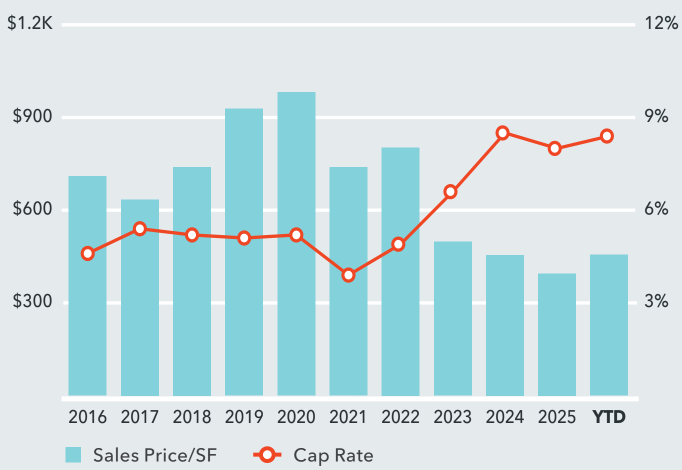
ASKING RENTS increased compared to last year, from $47.11 to $49.10 Full Service Gross

LEASE RATE, VACANCY & AVAILABILITY

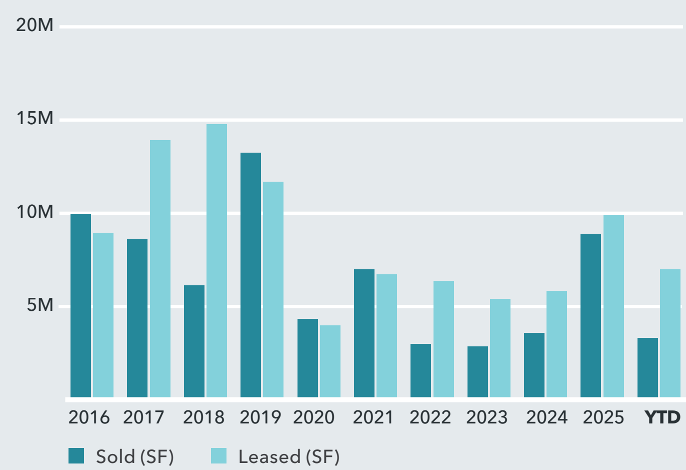


NET ABSORPTION & NEW DELIVERIES

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	2Q26 Total Net Absorption	YTD Total Net Absorption	2Q26 Leasing Activity	YTD Leasing Activity	Direct Rental Rate
Civic Center	637,893	0	13.0%	0.0%	13.0%	7.4%	-5,314	-11,756	570	4,991	$30.85
Financial District	30,311,253	0	27.5%	1.5%	29.0%	31.0%	146,400	163,085	679,693	1,597,980	$49.84
Jackson Square	2,439,225	0	19.4%	2.1%	21.5%	22.7%	-41,589	-84,842	76,820	136,365	$43.21
Mid Market	4,969,195	0	33.8%	1.2%	35.0%	41.8%	307,064	258,449	538,631	547,009	$42.02
Mission Bay/China Basin	4,552,614	381,750	8.5%	1.9%	10.4%	18.5%	108,036	377,656	4,535	428,842	$54.55
Mission/Potrero	1,810,532	0	10.7%	1.4%	12.1%	14.0%	-22,807	-6,329	62,266	95,297	$43.05
Rincon/South Beach	6,889,412	0	20.9%	8.3%	29.2%	32.7%	88,193	12,600	316,294	556,870	$45.31
Showplace Square	4,499,837	0	19.6%	3.9%	23.5%	32.8%	12,261	105,864	353,474	390,866	$41.05
South Financial District	29,500,607	0	22.6%	2.1%	24.8%	24.9%	508,277	896,755	1,103,974	2,413,664	$52.02
SOMA	3,649,983	0	32.0%	1.2%	33.2%	29.7%	-170,268	-22,403	171,535	253,280	$34.39
Union Square	5,299,611	0	28.7%	1.6%	30.3%	30.7%	22,202	-92,746	144,458	268,455	$45.25
Van Ness Corridor/Chinatown	1,632,382	0	11.3%	0.1%	11.4%	11.7%	-15,187	73,231	0	6,146	$43.47
Waterfront/North Beach	3,724,682	0	22.2%	0.8%	23.0%	26.1%	59,440	162,562	98,984	186,329	$79.29
Yerba Buena	3,598,722	0	47.6%	8.8%	56.4%	56.1%	-167,111	-147,675	21,171	103,369	$41.34
San Francisco Totals	**103,515,948**	**381,750**	**24.7%**	**2.5%**	**27.2%**	**29.1%**	**829,597**	**1,684,451**	**3,572,405**	**6,989,463**	**$49.10**
Class A	60,950,238	381,750	24.8%	2.4%	27.2%	29.3%	624,762	1,112,075	1,519,883	3,794,216	$57.22
Class B	35,683,415	0	25.2%	2.9%	28.1%	30.4%	244,625	608,810	1,877,666	2,845,497	$43.46
Class C	6,882,295	0	21.3%	0.7%	22.0%	20.8%	-39,790	-36,434	174,856	349,750	$36.14

ECONOMIC REVIEW

San Francisco's office market continues to gain momentum as technology companies, particularly within the AI sector, continue to expand and attract significant investment. Strong venture capital activity is also supporting business formation, hiring, and office demand across the city. Investor sentiment has also improved, with institutional capital becoming increasingly active as fundamentals stabilize and pricing adjusts to more attractive levels.

While leasing and investment activity point to a healthier market, office attendance remains uneven due to continued hybrid and remote workplace models. As a result, the current recovery is being driven more by improving market fundamentals than by a broad-based increase in daily office utilization.

NEAR-TERM OUTLOOK

The office market is expected to continue its recovery through the remainder of 2026. Expansion within the AI ecosystem and adjacent industries should remain the primary catalyst for leasing activity, particularly in high-quality buildings near established technology hubs. Continued venture capital investment and an active tenant pipeline suggest demand will remain healthy, while subdued interest in older inventory may widen performance gaps across asset classes.

Key risks include the pace of technology hiring, broader economic conditions, and the continued evolution of office utilization patterns. Even so, current market momentum points to further improvement in occupancy, leasing activity, and investor interest as the year progresses.

SIGNIFICANT SALE TRANSACTIONS 2Q 2026

Property	Submarket	SF	Sale Price	$/SF	Buyer	Seller
1 De Haro	Showplace Square	126,537	$103,000,000	$814	Strada Investment Group	SKS Partners
1 Lombard St	Waterfront/North Beach	75,000	$35,812,445	$478	Bay Club	LaSalle Investment Mgmt.
394 Pacific Ave	Jackson Square	47,015	$32,800,000	$698	Zurich Alternative Asset Mgmt.	Grosvenor
838 Grant Ave	Van Ness/Chinatown	62,370	$32,000,000	$513	Chinatown Media & Arts Collaborative	Lily & John Yee
2300-2340 Stockton St	Waterfront/North Beach	46,000	$18,250,000	$397	Ocean Avenue Realty Fund	Academy of Art University

SIGNIFICANT LEASE TRANSACTIONS 2Q 2026

Property	Submarket	SF	Transaction Date	Landlord	Tenant
1455 Market St	MidMarket	505,000	May 2026	Hudson Pacific Properties	City & County of San Francisco
2 Henry Adams St	Showplace Square	149,000	April 2026	DWS Group	together.ai
303 2nd St	Rincon/South Beach	70,000	April 2026	Kilroy Realty Corporation	LangChain
One Market Plaza	South Financial District	62,000	April 2026	Blackstone	Assort Health
201 Third St	South Financial District	62,000	April-26	Kilroy Realty Corporation	Harvey AI

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

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.

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

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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