

MARKET FUNDAMENTALS

	YOY Chg	Outlook
29.3% Vacancy Rate	▼	▼
2.9M YTD Net Absorption, SF	▲	▲
\$72.68 Asking Rent, PSF (Overall, All Property Classes)	▲	▲

ECONOMIC INDICATORS

	YOY Chg	Outlook
1.1M San Francisco Metro Employment*	▲	▲
3.7% San Francisco Metro Unemployment Rate	▼	▲
4.2% U.S. Unemployment Rate	▼	▲

Source: BLS

ECONOMY: AI Sector Continues To Fuel Improvement

The San Francisco office market improved across all major real estate metrics in the third quarter of 2026, driven largely by the artificial intelligence and machine learning (AI) sector. Demand from AI companies is expected to continue for the foreseeable future, and both the city and region stand to benefit from the full range of companies, from early-stage start-ups to those expected to IPO within the next year. Employment figures improved year-over-year (YOY) for the San Francisco metro division, with total nonfarm employment increasing by 9,800 jobs (0.9%) and the unemployment rate falling 40 basis points (bps) to 3.7%. San Francisco venture capital funding fell to \$21.2 billion in the third quarter. The previous two quarters set records, boosted by several large rounds for AI companies.

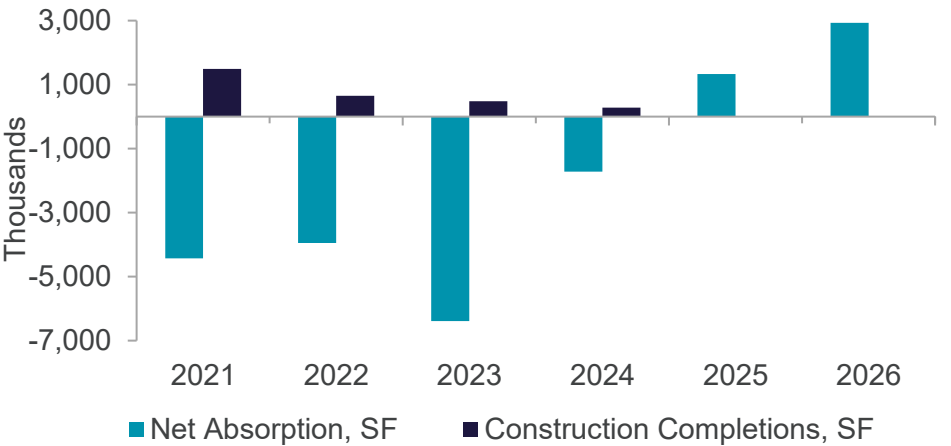
SUPPLY: Vacancy Rate Continues To Drop

The overall vacancy rate ended the third quarter of 2026 at 29.3%, declining 50 bps from the previous quarter and 410 bps from 33.8% one year ago. This marks the lowest vacancy rate since the third quarter of 2023. Direct vacancy was virtually unchanged from the previous quarter, while sublease vacancy fell to 3.0 million square feet (msf), its lowest level since the beginning of 2020. The availability rate sits at just 27.5%, with the gap largely attributable to the significant amount of leased space awaiting tenant occupancy. Overall absorption remained positive, totaling just over 405,000 sf during the third quarter and nearly 2.9 msf so far this year. This was the sixth consecutive quarter of positive absorption, with the South Financial District and SoMa accounting for the majority of this quarter's gains; San Francisco is on pace for its strongest full year since 2018.

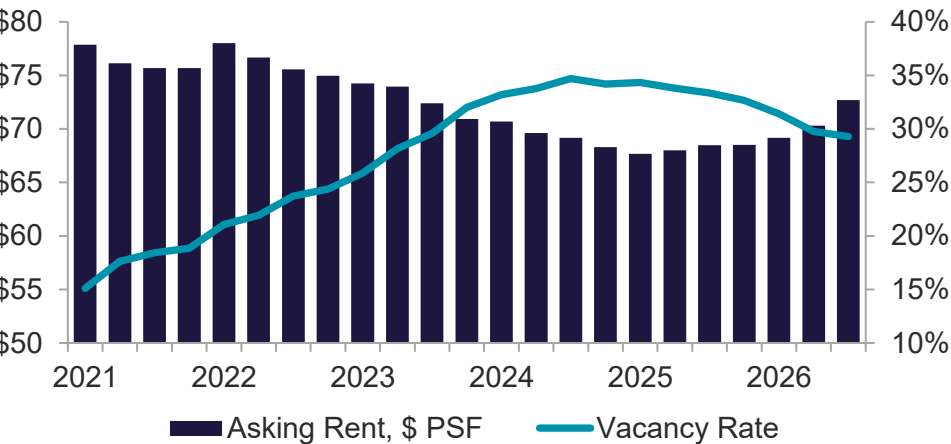
PRICING: Asking Rates Post Largest Increase Since 2020

San Francisco's overall average asking rent ended the third quarter at \$72.68 per square foot (psf) on an annual gross basis, up \$2.39 (3.4%) from \$70.29 psf in the second quarter of 2026. This represents the largest quarterly increase in overall rates since the first quarter of 2020 and takes the figure to its highest level since the second quarter of 2023. In the CBD, Class A asking rents rose to \$79.03 psf, while Non-CBD Class A asking rents increased \$3.28 quarter-over-quarter (QOQ) to \$72.90 psf. Class A Tier 1 assets remained the top performers this quarter, with direct asking rents of \$105.52 psf at a direct vacancy rate of just 10.3%.

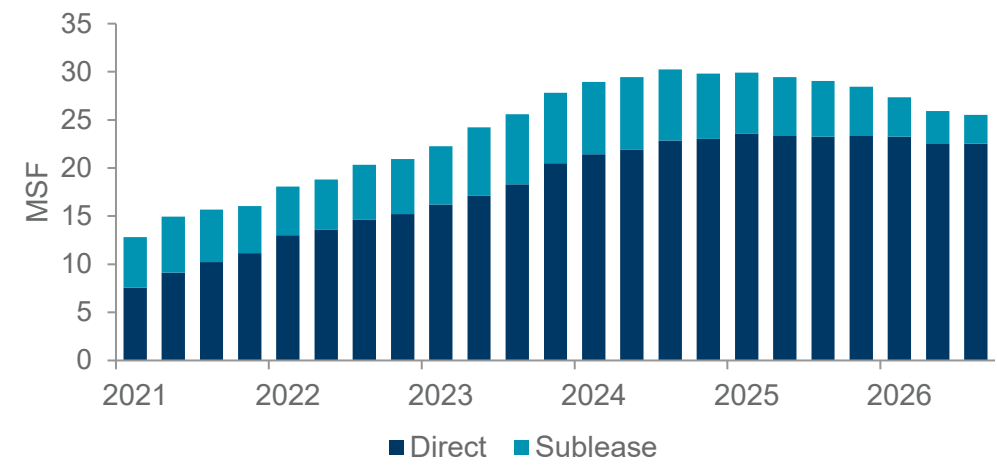
SPACE DEMAND / DELIVERIES



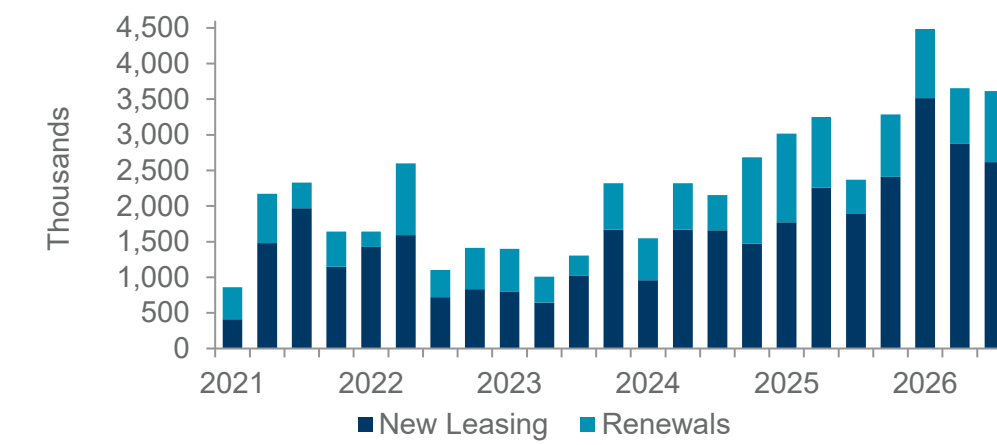
OVERALL VACANCY & ASKING RENT



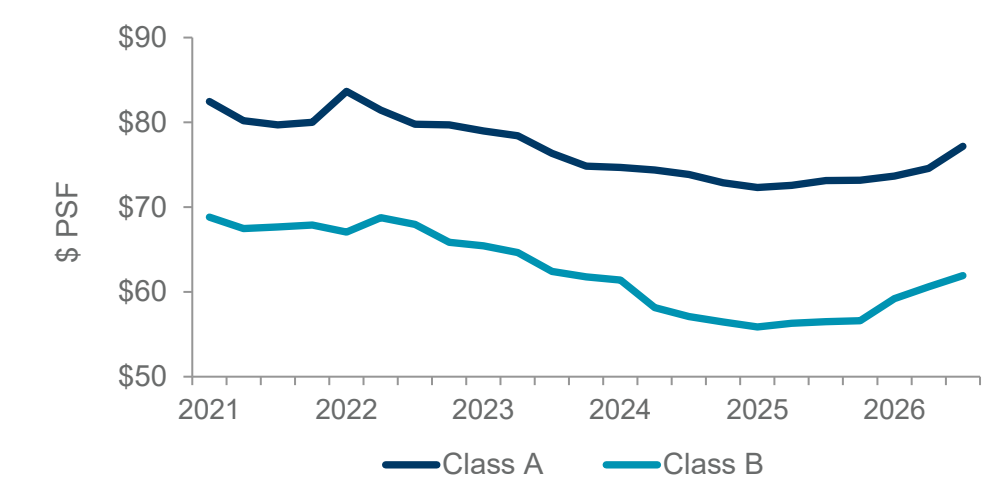
DIRECT VS. SUBLEASE VACANT SPACE COMPARISON



LEASING ACTIVITY



OVERALL ASKING RENT COMPARISON



DEMAND: New Leasing On Pace For Record Year

In the third quarter, citywide leasing activity (new leasing and renewals) reached 3.6 msf, nearly matching the level of the previous quarter. New deals alone totaled 2.6 msf, representing 72.4% of overall activity. New leasing has totaled just over 9.0 msf so far this year, already exceeding all of 2025 and putting the market on track to break the 10.4 msf record set in 2014.

The flight to quality continued in the third quarter, with Class A properties accounting for 76.7% of total volume, or 2.8 msf. The CBD continued to drive activity, totaling 2.0 msf and representing 55.5% of all deal volume. Activity was led by Amazon’s renewal and expansion at 525 Market Street in the South Financial District and Hinge Health’s relocation to 300 Mission Street for just under 120,000 square feet.

The Non-CBD also captured a significant share of activity, led by several large transactions in SoMa. Sierra AI’s 351,000-square-foot renewal and expansion at 185 Berry Street was the largest Non-CBD deal and the largest transaction of the quarter. Other notable transactions included Brex’s 198,000-square-foot renewal and expansion at 270 Brannan Street and Cognition AI’s sublease of just under 184,000 square feet at 333 Brannan Street. Notably, Amazon, Sierra AI, and Brex each renewed and expanded their space, indicating that companies already operating in San Francisco are growing their footprints.

This momentum reflects the continued strength of AI leasing activity, which has shown no signs of slowing in 2026. AI companies leased just over 4.4 msf through the first three quarters of the year, more than doubling the 2.1 msf leased during all of 2025.

San Francisco recorded 271 active tenant requirements totaling 8.0 msf, up significantly from 7.0 msf one year ago. The tech sector accounts for 61.9% of total demand, up sharply from 49.4% a year earlier, with AI tenants alone representing 29.0% of total requirements.

SALES: Investor Confidence Grows

Office investment sales remained active during the third quarter, led by Flynn Properties’ \$221 million acquisition of 225 Bush Street, or approximately \$377 psf, through a deed-in-lieu of foreclosure, and Seven Equity Group’s \$65.5 million purchase of 875 Howard Street, or approximately \$234 psf. Other transactions during the quarter further underscored growing investor confidence in the San Francisco office market, from early-cycle investors realizing substantial gains on their prior purchases to continued owner-user demand for high-quality assets. At the same time, activity remains highly selective, with buyers favoring strong locations, quality, and leasing potential, while value-add buyers continue to target assets available at discounted pricing.

OUTLOOK

- Leasing momentum is expected to continue through year-end, supported by ongoing expansion from AI and technology tenants and active requirements remaining well above year-ago levels. This sustained demand should support a record year of new leasing and continued positive absorption.
- Vacancy is expected to decline further as tenants take occupancy of space that has already been leased but remains unoccupied, providing additional support to market fundamentals over the coming quarters.
- The gap between the market's highest-quality buildings and older commodity space is expected to keep widening, with top-tier Class A properties continuing to lead the market in both leasing activity and asking rents.

MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
North Financial District	26,764,636	365,354	7,931,029	31.0%	-87,103	525,377	2,703,825	0	\$75.65	\$79.09
South Financial District	28,536,981	861,194	6,851,254	27.0%	226,532	1,194,362	4,559,930	0	\$78.32	\$78.98
CBD TOTALS	55,301,617	1,226,548	14,782,283	28.9%	139,429	1,719,739	7,263,755	0	\$76.89	\$79.03
Jackson Square	2,036,938	45,801	350,290	19.4%	-25,316	-5,467	290,504	0	\$73.43	\$78.09
Mid-Market	4,760,223	467,344	1,653,435	44.6%	0	27,179	531,937	0	\$48.92	\$56.71
Mission Bay	2,809,758	40,486	196,984	8.5%	-13,986	286,640	477,278	0	\$125.70	\$125.70
North Waterfront	3,365,750	76,009	768,941	25.1%	16,355	193,272	513,844	0	\$72.03	\$88.98
Showplace Square/Potrero Hill	4,013,369	437,881	455,258	22.3%	25,081	255,659	556,503	0	\$61.65	\$63.67
SoMa	9,255,722	675,929	3,463,036	44.7%	252,335	378,281	1,760,821	0	\$70.73	\$76.87
The Presidio	1,097,624	6,315	30,327	3.3%	-22,597	-12,039	78,773	0	\$62.00	\$0.00
Third Street Corridor	406,482	0	0	0.0%	0	0	70,000	0	\$0.00	\$0.00
Union Square	3,304,235	24,373	683,025	21.4%	33,972	92,575	206,231	0	\$57.30	\$73.98
Van Ness Corridor	728,356	1,000	127,754	17.7%	0	-4,095	3,090	0	\$42.85	\$47.93
NON-CBD TOTALS	31,778,457	1,775,138	7,729,050	29.9%	265,844	1,212,005	4,488,981	0	\$65.18	\$72.90
SAN FRANCISCO TOTALS	87,080,074	3,001,686	22,511,333	29.3%	405,273	2,931,744	11,752,736	0	\$72.68	\$77.17

*Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q3 2026

PROPERTY	SUBMARKET	TENANT	SF	TYPE
185 Berry Street	SoMa	Sierra AI	351,000	Renewal / Expansion
525 Market Street	South Financial District	Amazon	Confidential	Renewal / Expansion
270 Brannan Street	SoMa	Brex	198,040	Renewal / Expansion
333 Brannan Street	SoMa	Cognition AI	183,548	Sublease
300 Mission Street	South Financial District	Hinge Health	119,278	New Lease
850 Brannan Street	Showplace Square / Potrero Hill	Airbnb	111,223	New Lease
500 Terry Francois	Mission Bay	OpenAI	87,827	Sublease
850 Brannan Street	Showplace Square / Potrero Hill	Physical Intelligence	80,964	Sublease

KEY SALE TRANSACTIONS Q3 2026

PROPERTY	SUBMARKET	SELLER/BUYER	SF	PRICE / \$PSF
225 Bush Street	North Financial District	Kylli, Inc. / Flynn Properties	585,448	\$221M / \$377
875 & 899 Howard Street	SoMa	Hudson Pacific Properties / Seven Equity Group	307,704	\$65.5M / \$213
410 Townsend Street	SoMa	New York Life & Bridgeton Holdings / Zurich	78,000	\$47.4M / \$608

OFFICE SUBMARKETS



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