MARKETBEAT
SAN FRANCISCO
OFFICE Q2 2026

MARKET FUNDAMENTALS

	YOY Chg	Outlook
30.1% Vacancy Rate	▼	▼
2.2M YTD Net Absorption, SF	▲	▲
$70.31 Asking Rent, PSF	▲	▲

(Overall, All Property Classes)

ECONOMIC INDICATORS

	YOY Chg	Outlook
1.1M San Francisco Metro Employment*	▲	▲
3.8% San Francisco Metro Unemployment Rate*	▼	▼
4.2% U.S. Unemployment Rate	—	▲

Source: BLS
**Q2 2026 figures are latest available data*

ECONOMY: Market Continues Momentum

The San Francisco office market continued to build momentum in the second quarter as leasing activity remained strong and tenant demand reached its highest level since 2019. Artificial intelligence (AI) companies continued to play a significant role in the city's economic and real estate recovery, with both new market entrants and expanding tenants contributing to positive absorption and a meaningful decline in the overall vacancy rate. For the San Francisco metro division, office-sector employment increased slightly year-over-year, while total nonfarm employment rose by 9,700 jobs (0.9%) and the unemployment rate fell 20 basis points (bps) to 3.8%. Venture capital funding declined from a record first quarter but remained historically strong at $88.9 billion across 483 deals, with the Bay Area's five largest funding rounds all going to San Francisco-based companies, led by Anthropic's $65.0 billion later-stage raise.

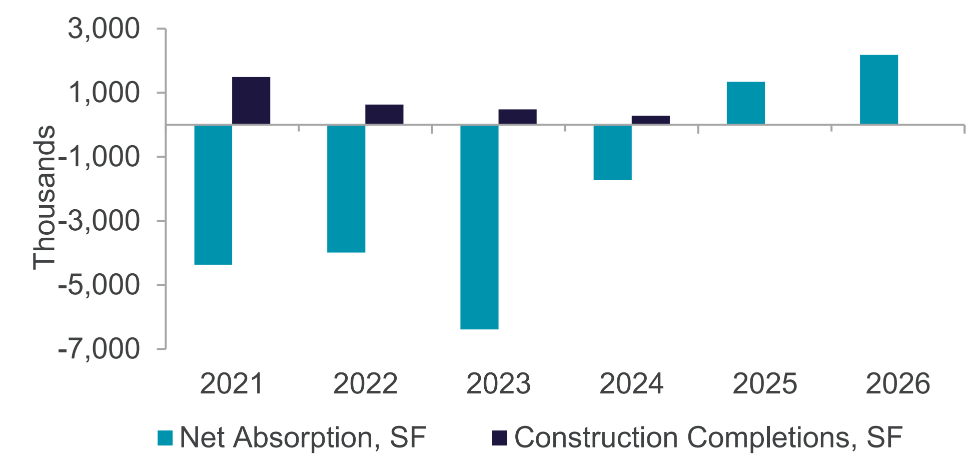
SUPPLY: Vacant Space Declines

The overall vacancy rate ended the second quarter of 2026 at 30.1%, declining 120 bps from the previous quarter and 360 bps from 33.8% one year ago. This marks the market's lowest vacancy rate since the third quarter of 2023. Direct vacancy decreased by more than 497,000 square feet (sf) during the quarter, while sublease vacancy fell to 3.5 million square feet (msf), its lowest level since the beginning of 2020. Of the current vacancy, 13.7% represents leased space awaiting move-in, indicating the vacancy rate is likely to continue trending downward as tenants commence occupancy. Overall absorption remained positive, totaling just over 1.0 msf during the second quarter and nearly 2.2 msf for the first half of 2026. This was the fifth consecutive quarter of positive absorption, with the South Financial District and Mission Bay accounting for the majority of this quarter's gains. The sustained momentum has been largely driven by the availability of market-ready, furnished space, allowing tenants to occupy their offices more quickly following lease execution.

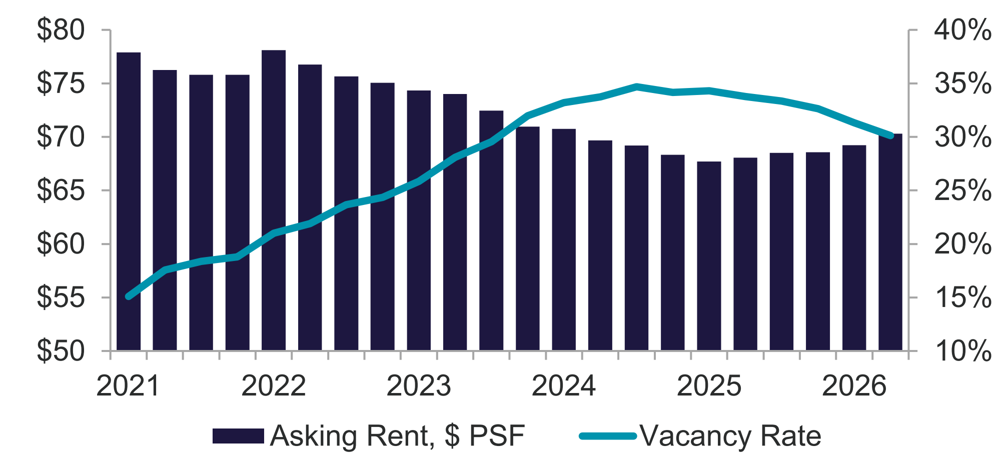
PRICING: Asking Rates Increase

San Francisco's overall average asking rent ended the second quarter at $70.31 per square foot (psf) on an annual gross basis, up $1.09 from $69.22 psf in the first quarter of 2026. In the CBD, Class A asking rents inched up to $76.60 psf, while Non-CBD Class A asking rents also increased, rising $0.50 quarter-over-quarter (QOQ) to $69.79 psf. Class A Tier 1 assets remained the top performers this quarter, with direct asking rents holding at $106.97 psf at a direct vacancy rate of just 8.2%. This represents a 37.3% pricing premium over the broader CBD market, underscoring sustained tenant demand for the highest-quality space.

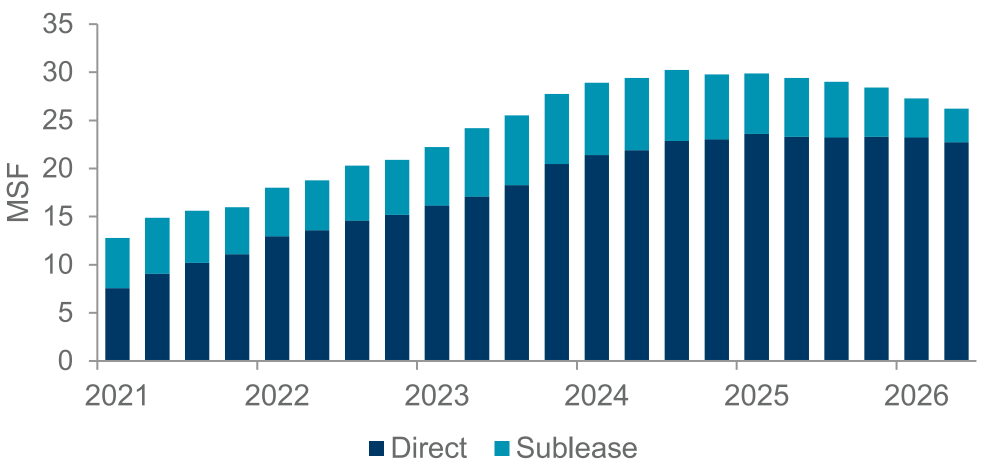
SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT

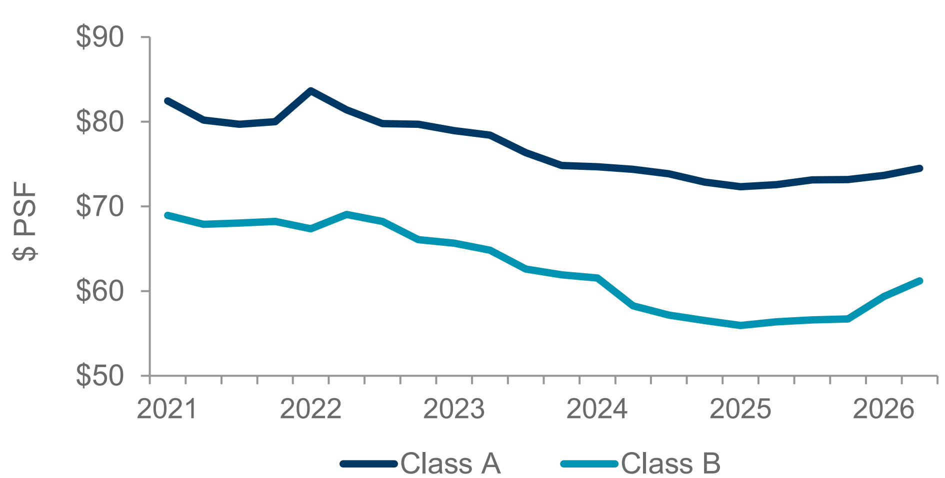


DIRECT VS. SUBLEASE VACANT SPACE COMPARISON



LEASING ACTIVITY

OVERALL ASKING RENT COMPARISON



DEMAND: Tenant Demand Strongest Since 2019

In the second quarter, citywide leasing activity (new leasing and renewals) reached 3.3 msf, down from 4.4 msf in the previous quarter. New deals alone in the second quarter totaled 2.6 msf, representing 80.3% of overall activity. The first half of 2026 recorded the strongest new leasing since the 7.6 msf recorded in 2000.

Leasing activity this quarter remained concentrated in Class A properties, which accounted for 69.8% of total volume, or 2.3 msf. The CBD continued to drive leasing activity, totaling 2.0 msf and representing 59.3% of all deal volume. The CBD's largest transaction was Anthropic converting its 249,664-square-foot sublease into a direct lease at 500 Howard Street. Despite maintaining the largest share of leasing activity, the CBD's proportion of total volume declined from the previous quarter, primarily due to the quarter's largest transaction: the City and County of San Francisco's 502,082-square-foot expansion at 1455 Market Street in Mid-Market. The Non-CBD continued to attract strong demand from AI and other technology firms during the quarter. This was highlighted by Together AI's 153,000-sf lease at 2 Henry Adams Street and Physical Intelligence's 61,000-sf sublease from Airbnb at 808 Brannan St. This momentum reflects the continued strength of AI leasing activity, which has shown no signs of slowing in the first half of 2026. AI companies leased just over 2.9 msf through the first six months of the year, already surpassing the 2.1 msf leased during all of 2025. New AI leases accounted for 47% of all new leasing activity in the first half of the year.

At the end of the second quarter, San Francisco recorded 276 active tenant requirements totaling 8.6 msf, with the tech sector accounting for approximately 54.9% of demand. This represents a substantial increase from 5.7 msf one year ago and marks the highest level of tenant demand since March 2019. Demand has expanded across nearly all size categories, fueled by both companies entering the market and existing tenants pursuing expansion opportunities.

OUTLOOK

- Tenant demand remains at its highest level since 2019 and is expected to support continued leasing activity and positive absorption through the remainder of the year.
- A meaningful amount of leased but not yet occupied space should support continued improvement in vacancy levels as tenants take occupancy over the coming quarters.
- As demand for high-quality office space continues to strengthen, asking rents for Class A properties are expected to remain on an upward trajectory, further widening the gap between premier assets and older commodity office buildings.

SALES: Continued Investment Momentum

Office investment sales remained active during the second quarter, with a significant number of additional properties currently under contract, signaling a strong pipeline heading into the second half of the year. The largest transaction was the debt sale of 415 Natoma Street, acquired by Fenway Capital for $200 million, or approximately $300 psf. Another notable sale was One De Haro in Showplace Square, which Strada acquired for $103 million, or approximately $800 psf. Improving office fundamentals and sustained AI-driven leasing demand continued to bolster investor confidence, particularly for high-quality, well-located Class A assets. In contrast, older commodity office buildings continue to face softer demand and pricing pressure. Looking ahead, investment sales are expected to remain active through the remainder of the year, supported by improving market fundamentals and renewed interest from both institutional and opportunistic investors.

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	467,309	7,839,770	31.0%	240,781	549,822	1,622,553	0	$73.08	$76.58
South Financial District	28,536,981	1,042,310	6,970,785	28.1%	370,421	883,378	3,435,297	0	$75.84	$76.70
CBD TOTALS	55,301,617	1,509,619	14,810,555	29.5%	611,202	1,433,200	5,057,850	0	$74.39	$76.64
Jackson Square	2,036,938	50,479	344,171	19.4%	9,997	-4,026	212,901	0	$70.40	$76.71
Mid-Market	4,760,223	467,344	1,658,070	44.6%	19,350	24,264	523,846	0	$48.79	$56.67
Mission Bay	2,809,758	35,590	196,984	8.3%	246,410	291,536	389,451	0	$125.70	$125.70
North Waterfront	3,365,750	73,359	850,978	27.5%	58,190	113,885	310,673	0	$69.19	$81.10
Showplace Square/Potrero Hill	4,013,369	627,275	344,921	24.2%	75,441	176,602	280,536	0	$61.52	$63.48
SoMa	9,231,050	720,870	3,601,472	46.8%	-18,571	132,555	688,306	0	$67.23	$71.95
The Presidio	1,097,624	6,315	7,730	1.3%	10,558	10,558	46,690	0	$0.00	$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	21,120	771,761	24.0%	35,063	7,092	134,453	0	$56.91	$73.25
Van Ness Corridor	728,356	5,421	124,563	17.8%	-2,764	-5,325	3,090	0	$42.85	$47.93
NON-CBD TOTALS	31,753,785	2,007,773	7,900,650	31.2%	433,674	747,141	2,659,946	0	$63.30	$69.79
SAN FRANCISCO TOTALS	87,055,402	3,517,392	22,711,205	30.1%	1,044,876	2,180,341	7,717,796	0	$70.31	$74.51

**Rental rates reflect full service asking*

KEY LEASE TRANSACTIONS Q2 2026

PROPERTY	SUBMARKET	TENANT	SF	TYPE
1455 Market Street	Mid-Market	City and County of San Francisco	502,082	New Lease / Expansion
500 Howard Street	South Financial District	Anthropic	249,646	New Lease
405 Howard Street	South Financial District	PwC	201,226	Renewal
2 Henry Adams Street*	Showplace Square/Potrero Hill	Together AI	153,311	New Lease
645 Harrison Street	SoMa	Planet Labs	110,123	Renewal / Expansion
405 Howard Street	South Financial District	Anthropic	72,091	New Lease
303 Second Street	South Financial District	LangChain	69,798	Sublease
808 Brannan Street	Showplace Square/Potrero Hill	Physical Intelligence	61,455	Sublease

**Lease will be included in revised Q2 2026 data*

KEY SALE TRANSACTIONS Q2 2026

PROPERTY	SUBMARKET	SELLER/BUYER	SF	PRICE / $PSF
415 Natoma Steet	SoMa	Brookfield / Fenway Capital	667,000	$200M / $300
One De Haro Street	Showplace Square/Potrero Hill	SKS Partners / Strada Investment Group	133,427	$103M / $772
55 New Montgomery Street	South Financial District	Swift Realty Partners / StartupHQ	100,183	$20M / $200

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