Elevated demand, despite occupancy losses

▲ 24.9%
Vacancy Rate

▼ (138,189)
SF Net Absorption

▶ 0
SF Construction Delivered

▼ 39,285
SF Under Construction

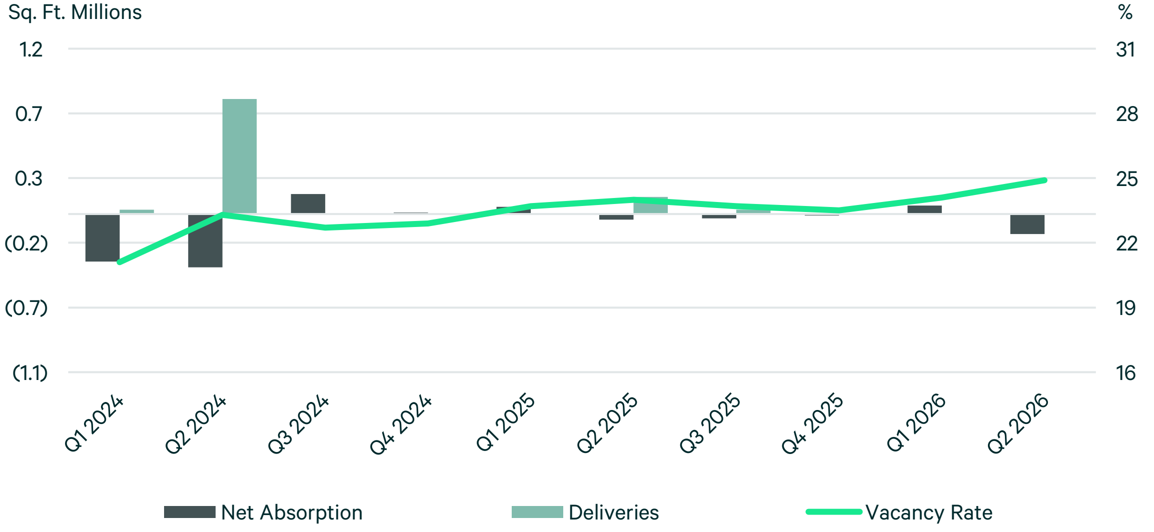
▲ $7.21
FSG/MTH Direct Lease Rate

Note: Arrows indicate change from previous quarter.

Market Overview

- Net absorption turned negative at 138,000 sq. ft., a decline of roughly 200,000 sq. ft. from Q1 2026 and a reversal from positive readings recorded in prior quarters.
- Vacancy rose 0.8% quarter-over-quarter (QoQ) and 0.9% from Q2 2025. Availability followed a similar trajectory, moving higher over the period and underscoring persistent elevated supply conditions.
- Average asking rents increased 7.1% year-over-year (YoY), reflecting continued bifurcation between well-amenitized product commanding premium pricing and a growing pool of second-generation space competing on economics.
- Leasing activity closed the quarter slightly above 1.0 million sq. ft. (msf), which was the fourth straight quarter this metric exceeded 1.0 msf.
- Active requirements ended at 4.0 msf across 61 tenants, down from 4.2 msf last quarter with the reduction attributed to large lease signings. Eleven tenants sought blocks exceeding 100,000 sq. ft., and AI companies accounted for roughly 1.1 msf of total demand.

Figure 1: Historical Net Absorption, Deliveries, and Vacancy



Source: CBRE Research, Q2 2026

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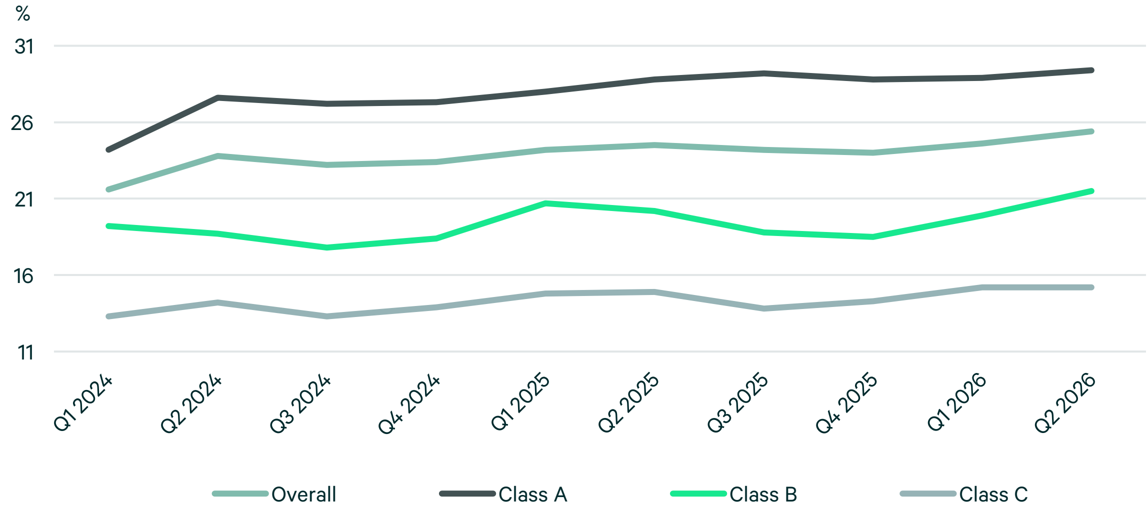
Vacancy

In Q2 2026, overall vacancy measured 28.9% for Class A, 21.0% for Class B and 14.7% for Class C. Vacancy increased by 50 basis points (bps) in Class A and 160 bps in Class B, while Class C was unchanged QoQ. Vacancy rose by 60 bps in Class A, 130 bps in Class B and 30 bps in Class C YoY. Compared with Q2 2023, vacancy is higher by 1,110 bps in Class A, 380 bps in Class B and 230 bps in Class C.

Across submarkets in Q2 2026, San Bruno/Millbrae recorded the lowest overall vacancy at 5.9%, with 73,000 sq. ft. of direct vacant space. Palo Alto/East Palo Alto had the second lowest vacancy at 16.5%, alongside 1.2 msf of direct vacancy and a 3.3% sublease vacancy rate. Redwood City/Redwood Shores posted the highest vacancy at 42.2%, with 3.1 msf of direct vacancy and 2.7% of space available for sublease.

In Q2 2026, sublease vacancy in Class A was 7.0%, up 10 bps QoQ, while Class B declined to 1.7% and Class C to 0.1%, each down 10 bps QoQ. Across the reported submarkets, sublease availability totaled 1.9 msf in Q2 2026.

Figure 2: Vacancy Rates by Class



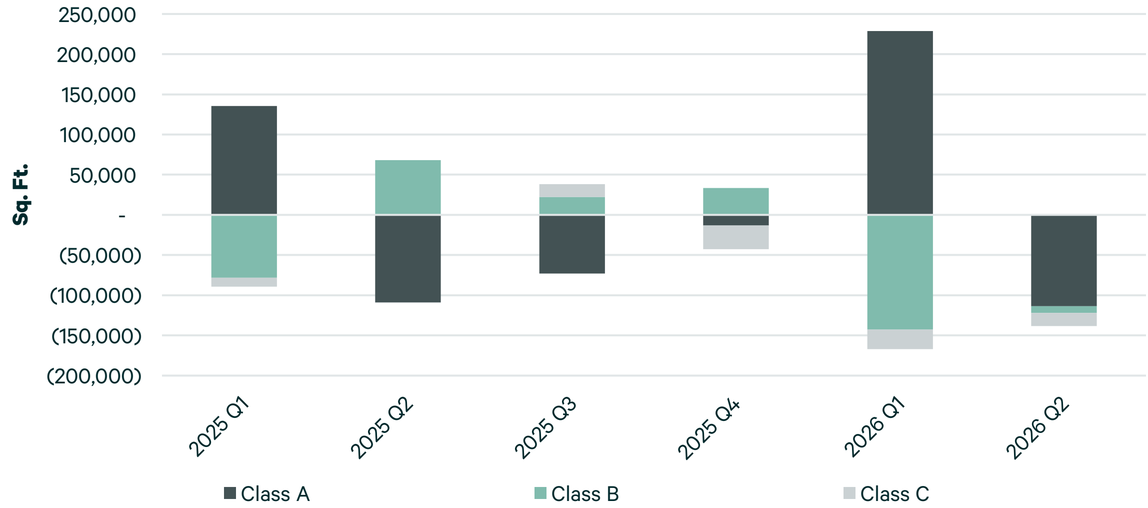
Source: CBRE Research, Q2 2026

Net Absorption

In Q2 2026, total net absorption across all property classes was negative 138,000 sq. ft., indicating net move-outs at the market level. This total was below the 61,000 sq. ft. of positive net absorption recorded in Q1 2026, a QoQ swing of 199,000 sq. ft. as Class A demand reversed. YoY, Q2 2026 absorption was below the negative 42,000 sq. ft. recorded in Q2 2025, reflecting deeper net occupancy losses. Class A remains the primary driver with negative 114,000 sq. ft. in Q2 2026, though its rolling four-quarter average has improved from negative 423,000 sq. ft. in Q2 2024 to 7,000 sq. ft. in Q2 2026, while Class B and Class C together contributed a smaller negative 24,000 sq. ft.

At the submarket level in Q2 2026, Redwood City/Redwood Shores recorded the highest positive net absorption, adding 37,000 sq. ft. of occupied space. South San Francisco provided the next largest positive contribution, with net absorption of 24,000 sq. ft. At the other end of the spectrum, Daly City/Brisbane registered the most negative net absorption at 63,000 sq. ft. below prior occupancy levels, followed by Menlo Park with negative 47,000 sq. ft. Numerous other submarkets posted smaller negative readings, underscoring the uneven distribution of demand across the corridor.

Figure 3: Net Absorption Trend



Source: CBRE Research, Q2 2026

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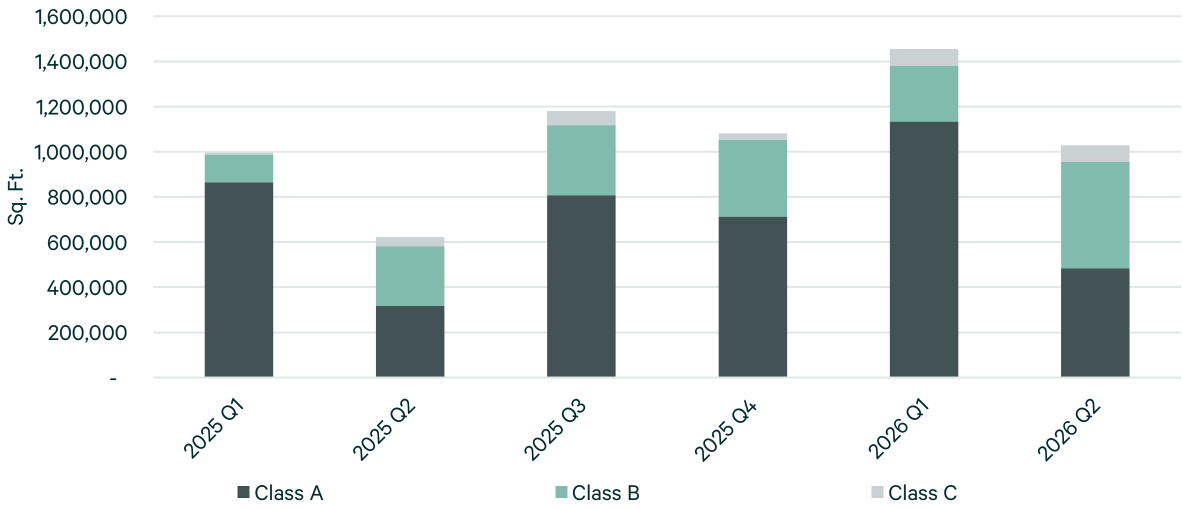
Leasing Activity

Leasing volume ended at 1.0 msf in Q2 2026, compared with 1.5 msf in Q1 2026 and an aggregate 3.9 msf leased during 2025. This is the fourth straight quarter that leasing activity has exceeded 1.0 msf. Year-to-date, this metric ended Q2 at 2.5 msf, which is roughly 900,000 sq. ft. more than the first half of 2025. Palo Alto/East Palo Alto and Redwood City/Redwood Shores covered approximately 54.1% of total leasing volume during the quarter. Class A leasing accounted for 47.0% of all volume. New leasing made up 63.7% of total activity.

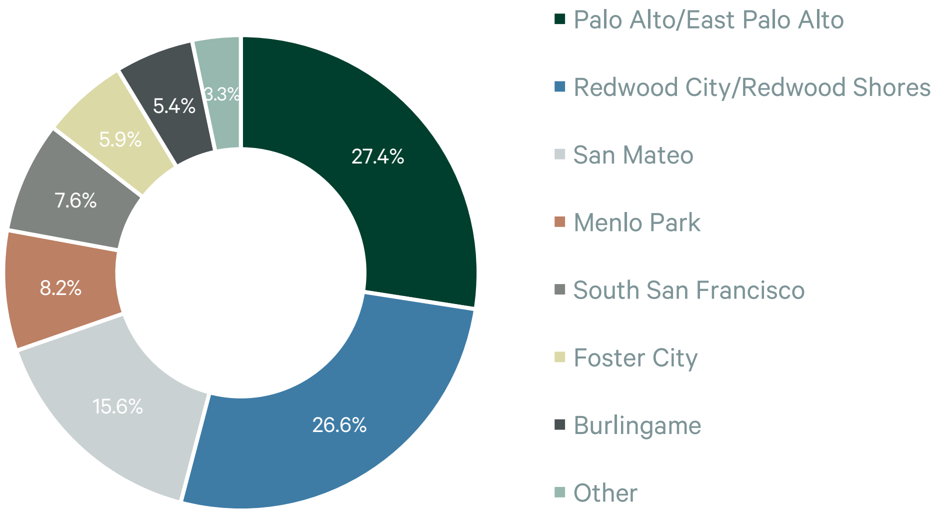
Leasing was healthily distributed across most size ranges, except there were no deals above 100,000 sq. ft. There were four leases between 50,000 sq. ft. and 99,999 sq. ft., and those deals accounted for 22.3% of leasing volume. The most active size segment was below 10,000 sq. ft., which comprised 35.1% of volume.

Figure 4: Leasing Activity Trend



Source: CBRE Research, Q2 2026

Figure 5: Leasing by Submarket (% of Total Activity)



Source: CBRE Research, Q2 2026

Figure 6: Key Lease Transactions

Tenant	Sq. Ft. Leased	Transaction Type	Address	Submarket
Palantir Technologies	74,000	Renewal	100 Hamilton Ave	Palo Alto/East Palo Alto
Replit	53,000	New Lease	1001-1051 E Hillsdale Blvd	Foster City
Sunday Robotics	52,000	New Lease	305 Walnut St	Redwood City/Redwood Shores
Freshfields US	51,000	Renewal/Expansion	855 Main St	Redwood City/Redwood Shores
Matic Robots	34,000	New Lease	1020 Marsh Rd	Menlo Park

Source: CBRE Research, Q2 2026

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Asking Rent

In Q2 2026, the market-wide average asking rent reached $7.21, up 0.1% QoQ from $7.20 and 7.1% YoY from $6.73 in Q2 2025. Across the data series, Class A space remains priced at a clear premium at $8.64 in Q2 2026, posting a negative 1.5% QoQ change from $8.77 but a 9.5% YoY gain from $7.89.

Within Class A inventory, Menlo Park and Palo Alto/East Palo Alto record the highest Q2 2026 asking lease rates at $11.99 and $10.05, respectively, defining the premium end of the Peninsula corridor. Belmont/San Carlos ($8.75), South San Francisco ($8.95), and Redwood City/Redwood Shores ($7.81) form the next tier, while Burlingame ($6.29), Foster City ($6.03), Daly City/Brisbane ($6.25), and San Mateo ($6.40) offer mid-range pricing. Class B and Class C patterns broadly mirror this hierarchy, with Palo Alto/East Palo Alto ($7.45) and Menlo Park ($7.34) at the top of the Class B range and Menlo Park ($5.96) and Belmont/San Carlos ($5.50) leading Class C, while South San Francisco ($3.93 Class B, $2.08 Class C) and Daly City/Brisbane ($3.32 Class B, $3.08 Class C) sit at the lowest end of pricing.

Figure 7: Average Direct, Monthly, FSG Asking Rate by Class

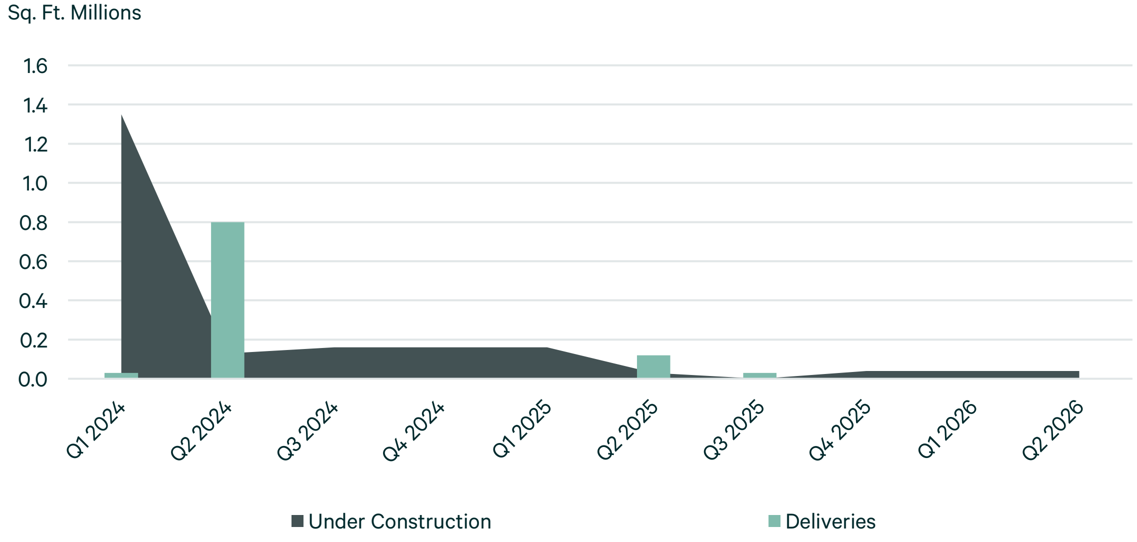
Source: CBRE Research, Q2 2026

Construction Activity

At Q2 2026, the market has 39,000 sq. ft. under construction and no new space delivered in the quarter. Under construction is unchanged QoQ and up 21.9% YoY from 32,000 sq. ft. in Q2 2025, reflecting a much smaller pipeline than in prior years. There were no construction deliveries this quarter, compared with 117,000 sq. ft. delivered in Q2 2025.

San Mateo records the highest under construction activity in Q2 2026, with 39,285 sq. ft. of general office space underway at Parallel on Claremont at 435 E 3rd Ave, which is 0.0% pre-leased and scheduled to deliver in Q2 2027.

Figure 8: Construction Activity



Source: CBRE Research, Q2 2026

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Market Statistics by Submarket

Figure 9

Submarket	Net Rentable Area (SF)	Total Vacancy (%)	Total Availability (%)	Direct Availability (%)	Sublease Availability (%)	Avg. Direct Asking Rate	Class A Asking Rent ($/SF FSG/mth)	Current Quarter Net Absorption (SF)	YTD Net Absorption (SF)	Deliveries (SF)	Under Construction (SF)
Belmont/San Carlos	1.23M	25.7	25.7	25.3	0.4	5.42	8.75	(4,000)	(3,000)	-	-
Burlingame	3.59M	22.0	23.1	7.8	15.3	4.16	6.29	(25,000)	(161,000)	-	-
Daly City/Brisbane	1.13M	17.2	19.0	19.0	-	3.97	6.25	(63,000)	(61,000)	-	-
Foster City	2.53M	23.6	23.9	16.7	7.1	4.96	6.03	(2,000)	119,000	-	-
Menlo Park	5.60M	20.6	23.7	15.4	8.3	9.76	11.99	(47,000)	(162,000)	-	-
Palo Alto/East Palo Alto	8.00M	16.5	18.6	15.4	3.3	9.35	10.05	(23,000)	(27,000)	-	-
Redwood City/Redwood Shores	7.66M	42.2	43.2	40.4	2.7	7.00	7.81	37,000	229,000	-	-
San Bruno/Millbrae	1.25M	5.9	7.2	5.9	1.4	4.28	-	(4,000)	(9,000)	-	-
San Mateo	8.31M	22.8	24.9	19.0	5.9	5.43	6.40	(30,000)	(3,000)	-	39,000
South San Francisco	2.34M	33.7	35.3	31.3	4.0	8.15	8.95	24,000	1,000	-	-
Total	**41.64M**	**24.9**	**26.6**	**21.1**	**5.5**	**7.21**	**8.64**	**(138,000)**	**(77,000)**	**-**	**39,000**

Source: CBRE Research, Q2 2026

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Market Statistics by Class

Figure 10: Metro Market Statistics by Class

Property Class	Net Rentable Area (SF)	Total Vacancy (%)	Total Availability (%)	Direct Availability (%)	Sublease Availability (%)	Avg. Direct Asking Rate ($/SF FSG/mth)	Current Quarter Net Absorption (SF)	YTD Net Absorption (SF)	Deliveries (SF)	Under Construction (SF)
Class A	24.50M	28.9	30.8	22.5	8.3	8.64	(114,000)	115,000	-	39,000
Class B	11.98M	21.0	22.8	20.9	1.9	5.68	(8,000)	(151,000)	-	-
Class C	5.16M	14.7	15.3	15.2	0.2	4.41	(16,000)	(41,000)	-	-
Total	**41.64M**	**24.9**	**26.6**	**21.1**	**5.5**	**7.21**	**(138,000)**	**(77,000)**	**-**	**39,000**

Source: CBRE Research, Q2 2026

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Market Area Overview

Definitions

Available Sq. Ft.: Space in a building, ready for occupancy within six months; can be occupied or vacant. Availability Rate: Total Available Sq. Ft. divided by the total building Area. Average Asking Lease Rate: A calculated average that includes net and gross lease rate, weighted by their corresponding available square footage. Building Area: The total floor area sq. ft. of the building, typically taken at the “drip line” of the building. Gross Activity: All sale and lease transactions completed within a specified time period. Excludes investment sale transactions. Gross Lease Rate: Rent typically includes real property taxes, building insurance, and major maintenance. Net Absorption: The change in Occupied Sq. Ft. from one period to the next. Net Lease Rate: Rent excludes one or more of the ”net” costs (real property taxes, building insurance, and major maintenance) typically included in a Gross Lease Rate. Occupied Sq. Ft.: Building Area not considered vacant. Vacancy Rate: Total Vacant Sq. Ft. divided by the total Building Area. Vacant Sq. Ft.: Space that can be occupied within 30 days.

Survey Criteria

CBRE’s market report analyzes existing single- and multi-tenant Office buildings that total 10,000+ sq. ft. within defined submarkets, including owner-occupied buildings. CBRE assembles all information through telephone canvassing, third-party vendors, and listings received from owners, tenants and members of the commercial real estate brokerage community.

Contacts

Giovanni Giannotta
Research Manager
+1 408.790.5410
giovanni.giannotta@cbre.com

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