Robust leasing activity despite negative net absorption

▲5.6%
Vacancy Rate

▼(126,938)
Sq. Ft. Net Absorption

▶ 0
Sq. Ft. Construction Delivered

▶ 0
Sq. Ft. Under Construction

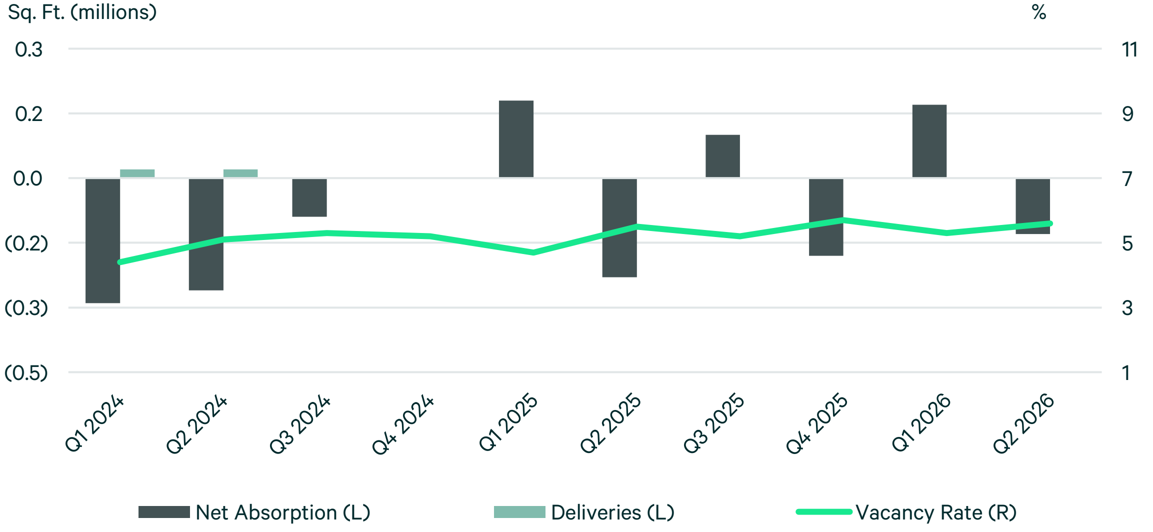
▼$1.99
NNN/MTH Direct Lease Rate

Note: Arrows indicate change from previous quarter.

Market Overview

- Leasing activity totaled 743,000 square feet (sq. ft.), which is the highest this metric has recorded in over four years.
- Net absorption ended at negative 126,938 sq. ft., which was due to a large single vacancy.
- Vacancy increased quarter-over-quarter (QoQ) by 30 basis points (bps), from 5.3% to 5.6%. Availability was unchanged QoQ at 7.9%.
- Average asking rents were relatively unchanged at $1.99 per sq. ft. on a direct, monthly, triple-net (NNN) basis.
- There were approximately 23 active industrial requirements totaling 1.08 million sq. ft. (msf) at the end of Q2 2026. This is slightly down from 1.28 msf in Q1 2026; however, many of the requirements were removed due to transacting. About 82.6% of these requirements were for less than 100,000 sq. ft. Technology companies comprised around 32.2% of the demand on a sq. ft. basis.

Figure 1: Historical Net Absorption, Deliveries, and Vacancy



Source: CBRE Research, Q2 2026

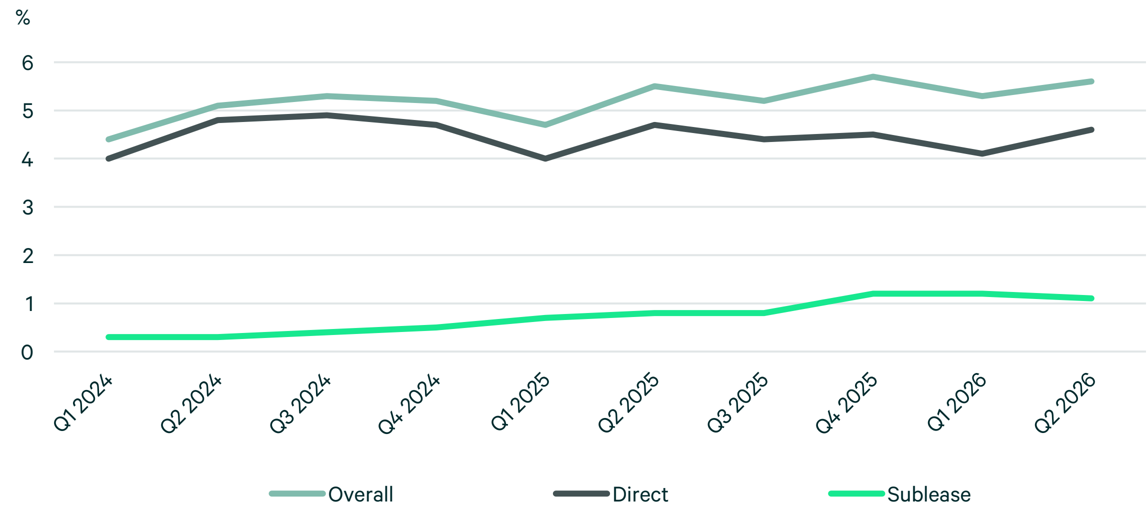
Vacancy

Overall vacancy was 5.6% in Q2 2026, up 30 basis points from 5.3% in Q1 2026 and 10 basis points higher than the 5.5% recorded in Q2 2025. Direct vacancy ended the quarter at 4.6%, a QoQ increase of 50 basis points and a year-over-year (YoY) change of negative 10 bps versus 4.7% in Q2 2025. Sublease vacancy measured 1.1% this quarter, 30 bps above the 0.8% level a year ago. Relative to Q2 2023, overall vacancy has increased by 330 bps, direct vacancy by 260 bps, and sublease vacancy by 80 bps.

By submarket, San Bruno has the lowest overall vacancy among non-zero markets at 0.3%. Millbrae posts the highest overall vacancy rate at 19.6%.

The sublease vacancy rate declined from 1.2% in Q1 2026 to 1.1% in Q2 2026, a QoQ change of negative 10 bps. Across all submarkets, vacant sublease space totals 370,952 sq. ft. in Q2 2026.

Figure 2: Vacancy Rate



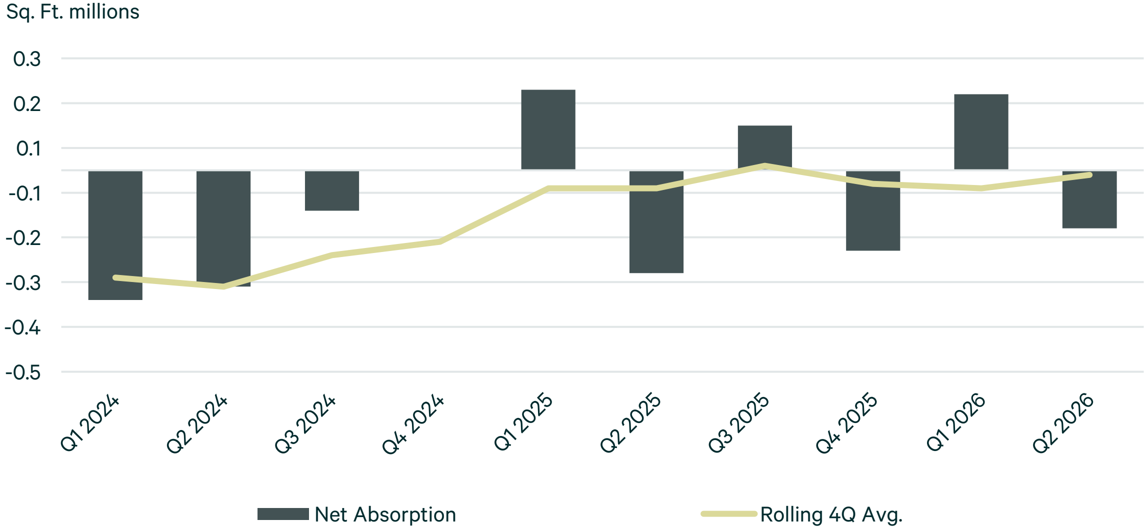
Source: CBRE Research, Q2 2026

Net Absorption

In Q2 2026, the market posted total net absorption of negative 127,000 sq. ft., indicating net move-outs overall. QoQ, this level is below the 167,000 sq. ft. of positive net absorption recorded in Q1 2026, reflecting a negative 176.1% change. Year-over-year, the current total is exceeding the negative 229,000 sq. ft. posted in Q2 2025, even as the reported YoY change is a negative 44.5% given the comparison to a larger net move-out last year. The rolling four-quarter average stands at negative 10,500 sq. ft., down 70.4% YoY.

At the submarket level, San Carlos recorded the highest positive net absorption in Q2 2026 at 51,000 sq. ft. across 2.7 msf of inventory, followed by Burlingame with 34,000 sq. ft. of net absorption within 4.0 msf of space. No additional submarkets posted positive net absorption during the quarter, underscoring how demand was concentrated in these two locations. On the negative side, South San Francisco registered the most negative net absorption at negative 123,000 sq. ft. It is worth noting, there was a single move-out totaling 139,282 sq. ft. Had this move out not occurred, the overall market would have recorded 12,000 sq. ft. of occupancy gains.

Figure 3: Net Absorption Trend



Source: CBRE Research, Q2 2026

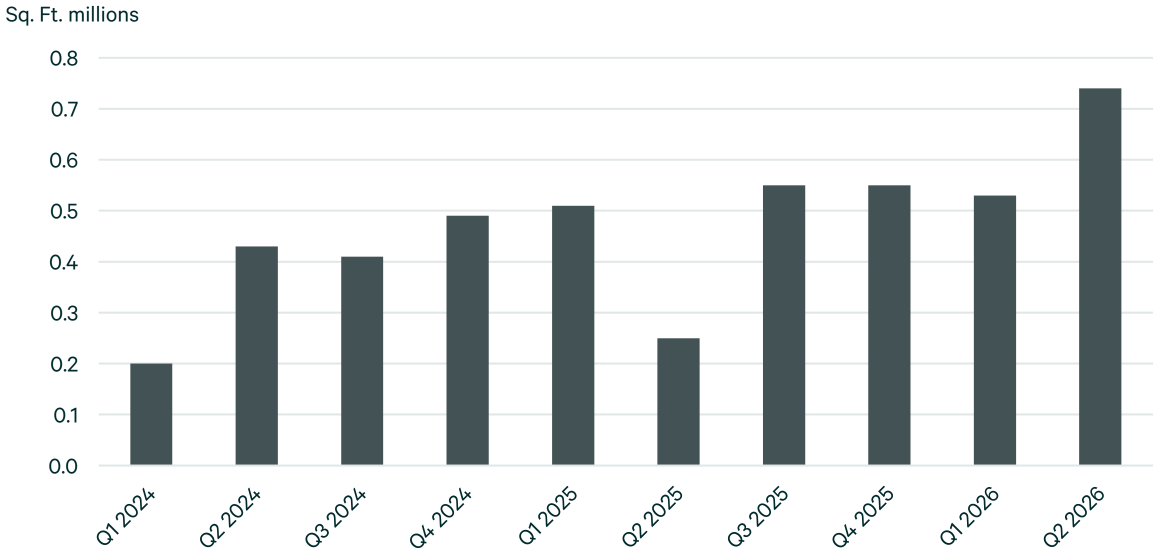
Leasing Activity

Leasing activity totaled 743,000 sq. ft. in Q2 2026, while over the past four quarters tenants committed to approximately 2.4 msf of space. The latest quarter's volume rose 39.7% QoQ and 200.8% YoY, underscoring the sharp increase relative to both the prior quarter and the same period last year.

South San Francisco posted the highest leasing volume, with 385,000 sq. ft. signed, followed by San Carlos at 139,000 sq. ft., making these the two most active submarkets. Positive but more modest volumes were recorded in Burlingame (103,000 sq. ft.), Brisbane (88,000 sq. ft.), Belmont (18,000 sq. ft.), and Redwood City (10,000 sq. ft.), indicating that recent activity remains concentrated in a handful of locations.

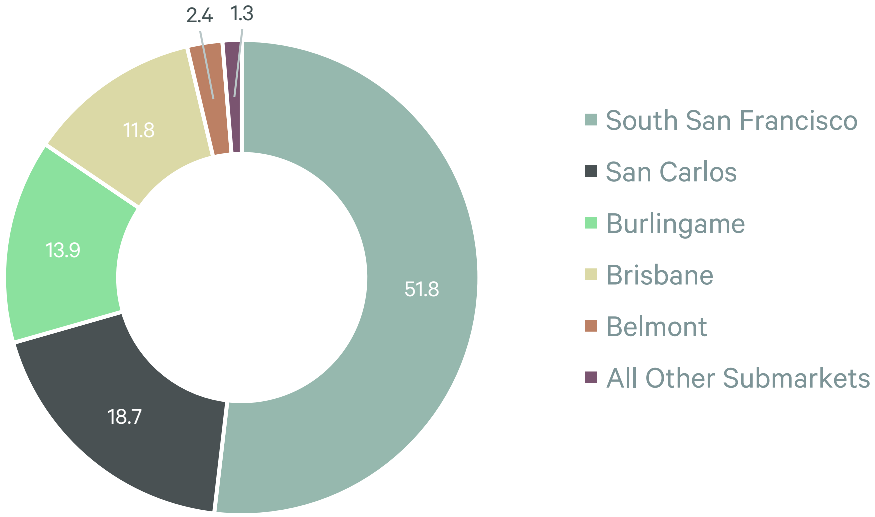
There were no leases above 100,000 sq. ft. Leases signed between 50,000 sq. ft. and 99,999 sq. ft. were the most active segment and accounted for 33.3% of total volume. New leases accounted for 80.7% of total leasing volume.

Figure 4: Leasing Activity Trend



Source: CBRE Research, Q2 2026

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



Source: CBRE Research, Q2 2026

Figure 6: Key Lease Transactions

Tenant	Sq. Ft. Leased	Transaction Type	Address	Submarket
Architectural Surfaces Group	72,000	New Lease	210-230 Industrial Rd	San Carlos
MV Transportation	64,000	New Lease	200-214 Shaw Rd	South San Francisco
Cellink	62,000	Renewal	610 Quarry Rd	San Carlos
Bright Machines	57,000	New Lease	1625-1635 Rollins Rd	Burlingame
Cablecom	40,000	Renewal	137 Utah Ave	South San Francisco

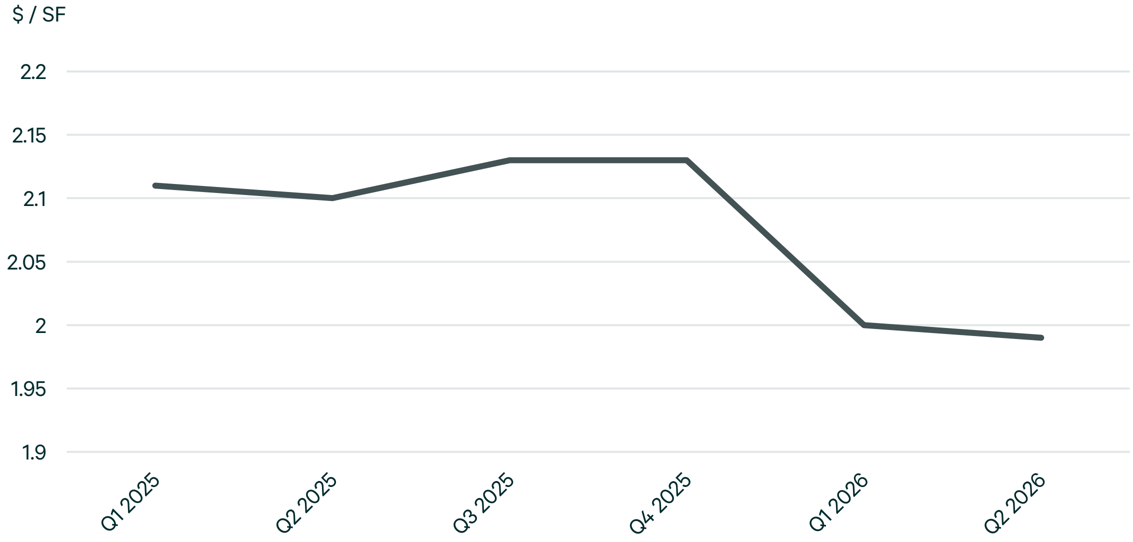
Source: CBRE Research, Q2 2026

Asking Rent

In Q2 2026, the market's average asking rent was $1.99 NNN per sq. ft. per month, reflecting a modest decline of negative 0.5% QoQ and negative 5.2% YoY. Relative to the recent high of $2.13 NNN in Q4 2025 and the earlier low of $1.97 NNN in Q4 2024, rents over the full series from Q2 2023 have stayed within a relatively tight band, signaling limited overall rate expansion despite short-term fluctuations. Many spaces are slated for redevelopment, which kept the rates subdued as landlords opted for shorter-term deals.

At the submarket level in Q2 2026, Redwood City and Palo Alto/East Palo Alto posted the highest average asking rents at $2.46 and $2.43, respectively. Burlingame and San Mateo also remained elevated at $2.24 and $2.10, while Belmont and San Carlos marked the lower end of the range at $1.64 and $1.76. Brisbane, South San Francisco, Millbrae, and Menlo Park clustered just below the average, between $1.84 and $1.90, underscoring pricing dispersion across the corridor.

Figure 7: Average Direct Asking Rate

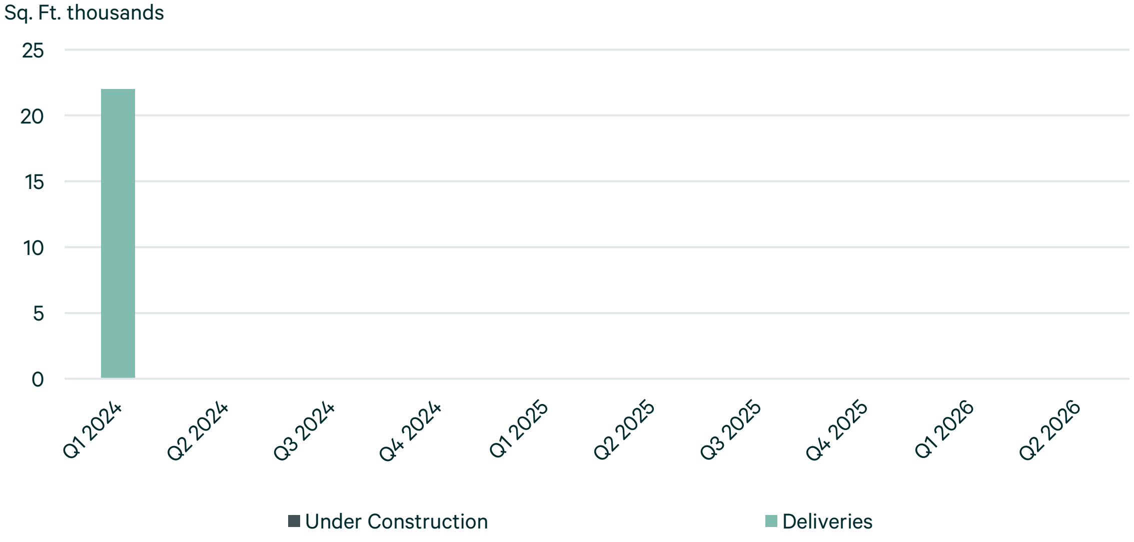


Source: CBRE Research, Q2 2026

Construction Activity

There were no projects delivered or under construction at the end of Q2 2026.

Figure 8: Construction Activity



Source: CBRE Research, Q2 2026

Market Statistics by Submarket

Figure 9

Submarket	Net Rentable Area (SF)	Total Vacancy (%)	Total Availability (%)	Direct Availability (%)	Sublease Availability (%)	Avg. Direct Asking Rate ($/SF NNN/mth)	Current Quarter Net Absorption (SF)	YTD Net Absorption (SF)	Deliveries (SF)	Under Construction (SF)
Belmont	578,000	10.5	10.5	10.5	-	1.64	(57,000)	(56,000)	-	-
Brisbane	4.50M	5.2	7.3	4.7	2.6	1.85	(7,000)	(16,000)	-	-
Burlingame	3.96M	4.8	12.2	9.3	2.9	2.24	34,000	54,000	-	-
Daly City	1.19M	-	-	-	-	-	-	-	-	-
Foster City	22,000	-	-	-	-	-	-	20,000	-	-
Menlo Park	1.68M	11.8	11.8	11.8	-	1.90	(6,000)	(5,000)	-	-
Millbrae	111,000	19.6	19.6	19.6	-	1.88	-	-	-	-
Palo Alto/East Palo Alto	1.31M	2.7	4.1	4.1	-	2.43	-	4,000	-	-
Redwood City	2.95M	6.3	6.8	6.8	0.0	2.46	(19,000)	(50,000)	-	-
San Bruno	316,000	0.3	0.3	-	0.3	-	-	-	-	-
San Carlos	2.72M	1.5	3.4	2.3	1.1	1.76	51,000	64,000	-	-
San Mateo	620,000	7.0	10.5	8.7	1.8	2.10	-	(6,000)	-	-
South San Francisco	15.17M	6.3	8.3	6.4	1.9	1.84	(123,000)	32,000	-	-
Total	**35.13M**	**5.6**	**7.9**	**6.3**	**1.6**	**1.99**	**(127,000)**	**40,000**	**-**	**-**

Source: CBRE Research, Q2 2026

Market Statistics by Product Type

Figure 10

Product Type	Net Rentable Area (SF)	Total Vacancy (%)	Total Availability (%)	Direct Availability (%)	Sublease Availability (%)	Avg. Direct Asking Rate ($/SF NNN/mth)	Current Quarter Net Absorption (SF)	YTD Net Absorption (SF)	Deliveries (SF)	Under Construction (SF)
Distribution/Logistics	29.33M	5.6	8.1	6.3	1.9	1.97	(131,000)	36,000	-	-
Manufacturing - General	5.80M	5.8	6.4	6.2	0.2	2.08	4,000	4,000	-	-
Total	**35.13M**	**5.6**	**7.9**	**6.3**	**1.6**	**1.99**	**(127,000)**	**40,000**	**-**	**-**

Source: CBRE Research, Q2 2026

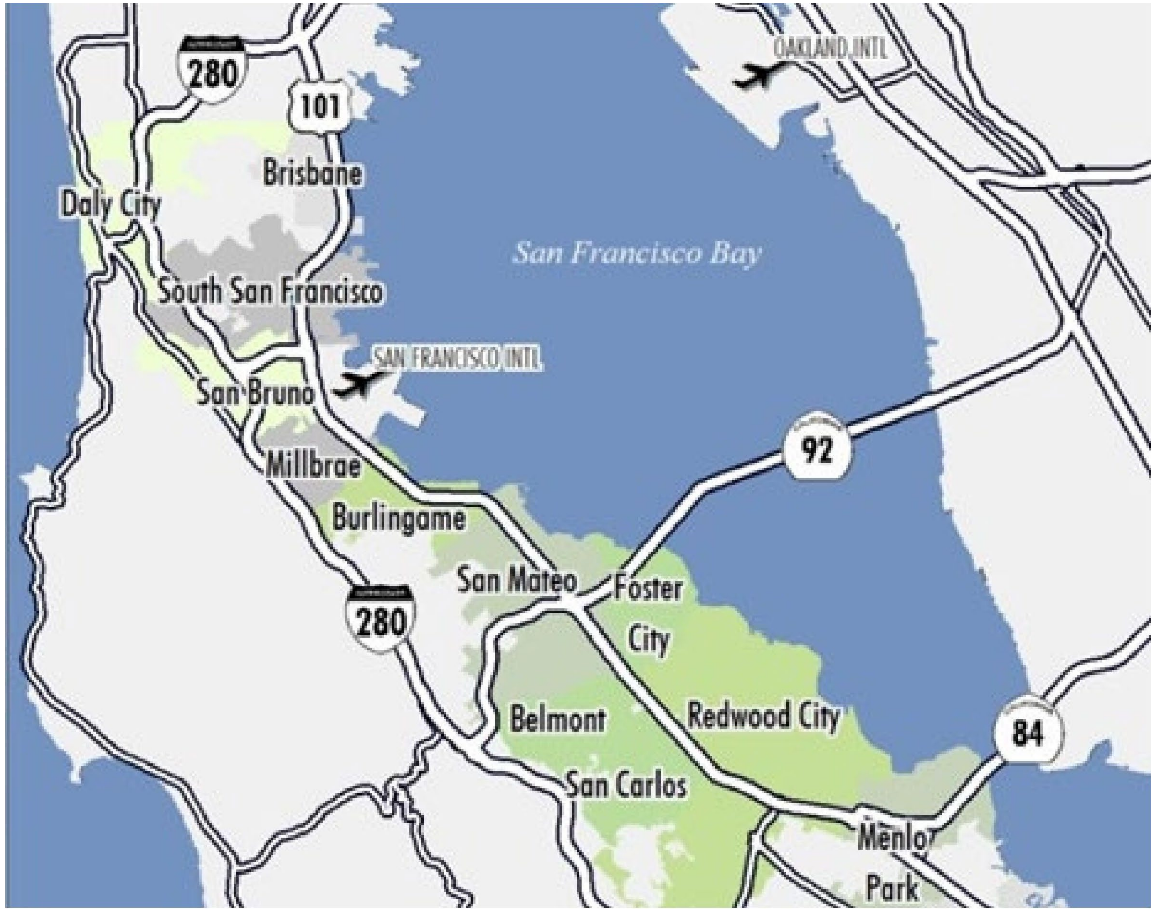
Market Statistics by Size

Figure 11

Size Range	Net Rentable Area (SF)	Total Vacancy (%)	Total Availability (%)	Direct Availability (%)	Sublease Availability (%)	Avg. Direct Asking Rate ($/SF NNN/mth)	Current Quarter Net Absorption (SF)	YTD Net Absorption (SF)	Deliveries (SF)	Under Construction (SF)
Below 50K SF	18.76M	6.3	7.6	6.7	0.9	2.05	(118,000)	(74,000)	-	-
50K-99,999 SF	7.32M	5.4	10.8	6.9	3.8	1.67	28,000	41,000	-	-
100K-249,999 SF	5.58M	7.1	9.8	7.8	2.1	2.17	(139,000)	(139,000)	-	-
250K-499,999 SF	2.91M	-	-	-	-	-	102,000	212,000	-	-
500K-749,999 SF	558,000	-	-	-	-	-	-	-	-	-
Total	**35.13M**	**5.6**	**7.9**	**6.3**	**1.6**	**1.99**	**(127,000)**	**40,000**	**-**	**-**

Source: CBRE Research, Q2 2026

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. Class A industrial are buildings built after 2000, with 32’ or greater clear height and ESFR sprinklers.

Survey Criteria

CBRE’s market report analyzes existing single- and multi-tenant industrial 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