AI lease expansions fuel record-high net absorption, lifting rents

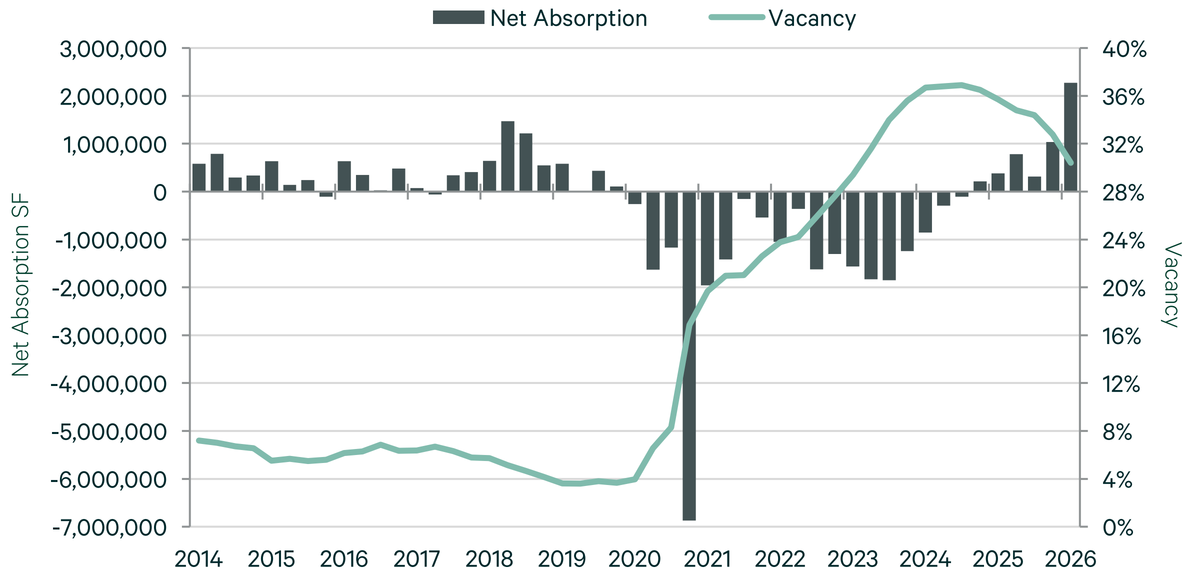
▼ 30.4%	▲ +2.3M	▶ 0	▲ $71.19	▼ 299K
Vacancy Rate	Sq. Ft. Net Absorption	Sq. Ft. Under Construction	Full Service Gross / Lease Rate Existing Properties	Office-Using Employment San Francisco County

Note: Arrows indicate change from previous quarter.

MARKET HIGHLIGHTS

- Record-high net absorption of 2.3 million sq. ft. lowered the vacancy rate from 32.8% to 30.4%.
- Since vacancy peaked at 36.9% in Q3 2024, more than 5.0 million sq. ft. of occupancy growth has occurred. This was the strongest six-quarter run of occupancy growth on record.
- Asking rents increased 3.7% year-over-year to $71.19 FSG. High demand from AI tenants drove double-digit increases in Mission Bay/China Basin and South of Market.
- 4.1 million sq. ft. was leased in Q1 2026, including nine deals larger than 100,000 sq. ft., a record high for the market. AI-related companies accounted for 58% of the leasing activity.
- Tenants-in-the-market demand ended the quarter at 7.5 million sq. ft, down slightly from Q4 2025 due to many large leases signed.
- Five major investment deals closed, totaling $1.27 billion invested across 2.45 million sq. ft.

FIGURE 1: Vacancy & Net Absorption Trend



Source: CBRE Research, Q1 2026

OFFICE MARKET OVERVIEW

In Q1 2026, the overall vacancy rate decreased from 32.8% to 30.4%, driven by 2.3 million sq. ft. of positive net absorption. This marked the strongest single-quarter occupancy increase on record. During the past four quarters (Q2 2025 to Q1 2026), San Francisco posted average quarterly growth of 1.1 million sq. ft.

South Financial District and Mission Bay/China Basin recorded the largest occupancy gains, fueled by the rapid expansion of Anthropic, OpenAI, and many other AI tenants. Together, these submarkets captured 71% of Q1 2026 growth and 61% of total growth across the last four quarters. As supply in core submarkets tightened amid high demand, spillover activity drove leasing in less competitive submarkets. Yerba Buena registered meaningful occupancy growth, reversing a post-pandemic pattern after occupancy losses in 23 of the prior 24 quarters.

The average direct asking rate increased from $70.43 to $71.19 FSG, reflecting 3.7% year-over-year growth. Driven by heightened AI demand, Mission Bay/China Basin, South of Market, and South Financial District led the year-over-year rent increases, climbing 14.0%, 12.1%, and 5.0%, respectively.

Gross leasing activity reached 4.1 million sq. ft., representing the strongest quarter since Q2 2019. Nine deals exceeded 100,000 sq. ft., establishing a new quarterly market record. Seven of the ten largest deals involved net growth, including four comprised entirely of expansion. AI-related companies accounted for 58% of total leasing activity in the quarter, while non-AI tech companies generated an additional 18% of the leasing volume.

Tenants-in-the-market demand declined from 8.0 million sq. ft. to 7.5 million sq. ft., due to many large leases signed. Despite the drop, active requirements remained above the 2019 peak of 7.1 million sq. ft. Net new demand ended the quarter at 2.8 million sq. ft., about 20% higher than the 2011-2019 average.

Five major investment transactions closed during Q1 2026. $1.27 billion was invested across the five deals, which totaled 2.45 million sq. ft. The most notable deal was Yoda PLC's acquisition of the three-building Transamerica Pyramid complex for $922 per sq. ft., the highest price paid for a San Francisco office asset since 2022.

Looking ahead, strong leasing momentum and continued AI expansion should persist through 2026, further lowering vacancy and increasing rents.

FIGURE 2: Submarket Statistics

*Central Business District (CBD) submarkets

Submarket	Net Rentable Area	Total Vacancy (%)	Total Availability (%)	Average Direct Asking Rate ($)	Q1 2026 Net Absorption	YTD 2026 Net Absorption
North Financial District*	27,931,481	30.9	33.8	72.97	253,095	253,095
Class A	21,757,060	28.7	31.9	77.84	102,178	102,178
South Financial District*	25,651,201	26.1	30.6	78.86	1,198,145	1,198,145
Class A	23,386,963	25.4	30.2	81.27	1,143,613	1,143,613
North Waterfront/Jackson Square	6,262,825	24.2	26.1	64.59	78,869	78,869
Class A	3,534,840	17.1	19.1	76.55	87,287	87,287
South of Market	9,054,538	35.4	40.6	70.39	114,878	114,878
Class A	6,011,097	34.6	41.2	82.75	(3,229)	(3,229)
Yerba Buena	4,163,232	62.2	62.5	66.08	112,369	112,369
Class A	2,147,708	71.1	71.9	79.52	101,442	101,442
South of Market West	3,599,778	51.8	51.8	49.12	46,507	46,507
Class A	2,565,929	60.0	60.0	52.98	166	166
Mission Bay/China Basin	4,820,041	13.2	15.0	106.00	414,739	414,739
Class A	4,820,041	13.2	15.0	106.00	414,739	414,739
Potrero Hill	2,458,017	24.1	27.8	46.80	89,527	89,527
Class A	922,788	28.2	28.2	69.00	70,556	70,556
Civic Center/Van Ness	1,772,052	23.0	24.2	43.21	34,920	34,920
Class A	604,436	41.6	44.9	43.55	35,875	35,875
Union Square	3,886,075	27.4	27.9	52.36	(70,103)	(70,103)
Class A	401,944	46.8	46.8	64.34	0	0
San Francisco Office Market	**89,599,240**	**30.4**	**33.5**	**71.19**	**2,272,946**	**2,272,946**
Class A	**66,152,806**	**29.1**	**32.8**	**78.32**	**1,952,627**	**1,952,627**

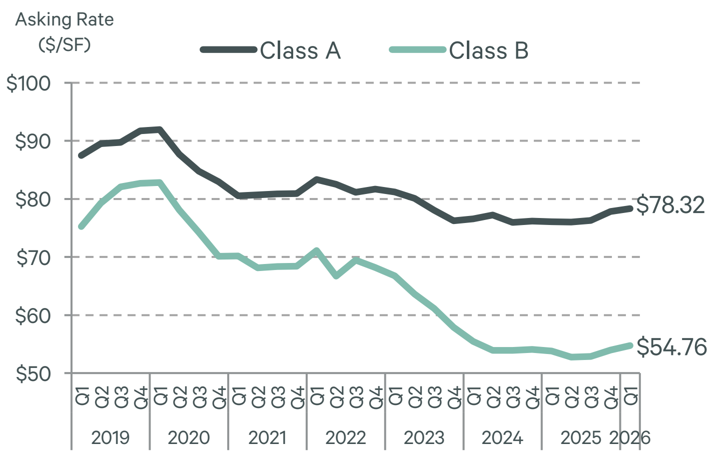
Source: CBRE Research, Q1 2026

FIGURE 3: Notable Lease Transactions Q1 2026

Tenant	Address	SF Leased	Deal Type
Anthropic	300 Howard St	480,000	New Lease
OpenAI	1800 Owens St	282,124	Sublease
Together AI	2 Henry Adams St	154,350	New Lease
LinkedIn	222 2nd St	148,664	Renewal
Crusoe	225 Bush St	130,234	New Lease
Atlassian	350 Bush St	127,123	Renewal
Charles Schwab	425 Market St	115,014	New Lease
Gladstone Institutes	1450 Owens St	108,082	New Lease
Anthropic	400 Howard St	104,286	New Lease
BridgeBio	1800 Owens St	95,485	Sublease

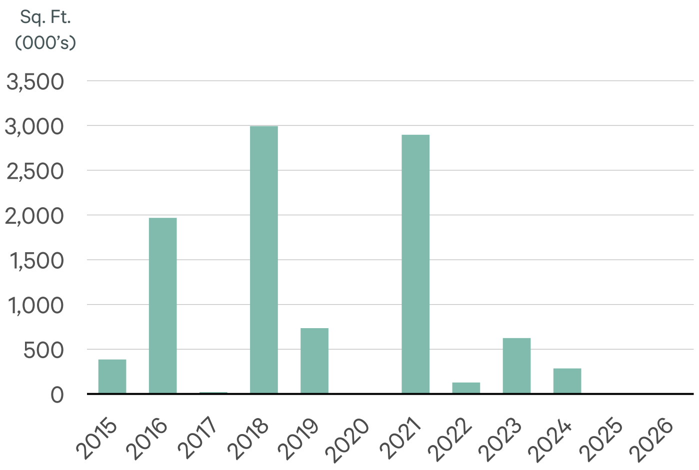
Source: CBRE Research, Q1 2026

FIGURE 5: Lease Rates



Source: CBRE Research, Q1 2026

FIGURE 7: Construction Completions



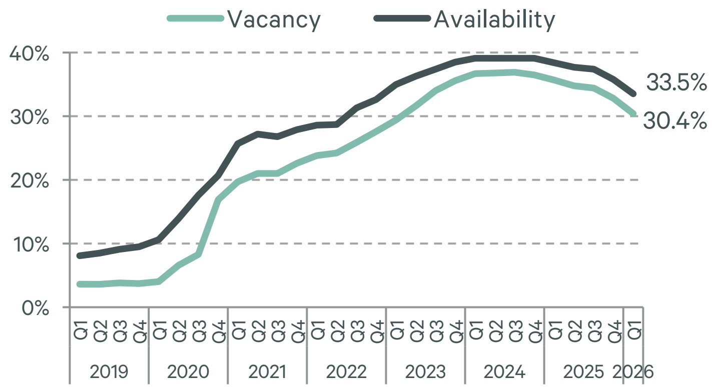
Source: CBRE Research, Q1 2026

FIGURE 4: Notable Sale Transactions Q1 2026

Address	Buyer	SF Sold	Sale Price
600 Montgomery St 505 & 545 Sansome St	Yoda PLC	750,000	$692M
415 Natoma St (5M)	The Meridian Group Fenway Capital	667,000	$200M
45 Fremont St	Madison Capital	594,000	$238M
123 Mission St	Madison Capital PGIM	360,000	$125M
55 New Montgomery St	StartupHQ	100,000	$20M

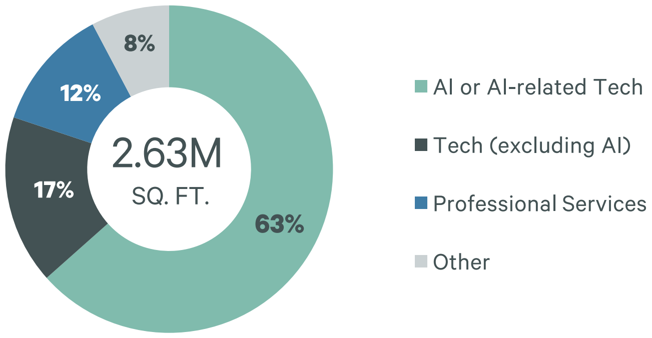
Source: CBRE Research, Q1 2026

FIGURE 6: Vacancy & Availability



Source: CBRE Research, Q1 2026

FIGURE 8: Top 25 Leases of the Quarter by Industry



Source: CBRE Research, Q1 2026

Submarket Map

Source: CBRE Research, Q1 2026, Location Intelligence,

Definitions

Average Asking Rate Direct Annual Lease Rates, Full Service Gross. Availability All existing space being marketed for lease. Total Vacancy Rate Direct Vacancy + Sublease Vacancy. CBD Central Business District; consists of North Financial District and South Financial District submarkets.

CBRE's market report analyzes existing single- and multi-tenant office buildings that total 10,000+ sq. ft. in downtown San Francisco, excluding 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.

Employment statistics sourced from Oxford Economics.

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