

Seven quarters of occupancy growth has accelerated rent increases

▼ 29.2%

Vacancy Rate

▼ 963,980

SF Net Absorption

▶ 0

SF Construction Delivered

▶ 0

SF Under Construction

▲ \$72.96

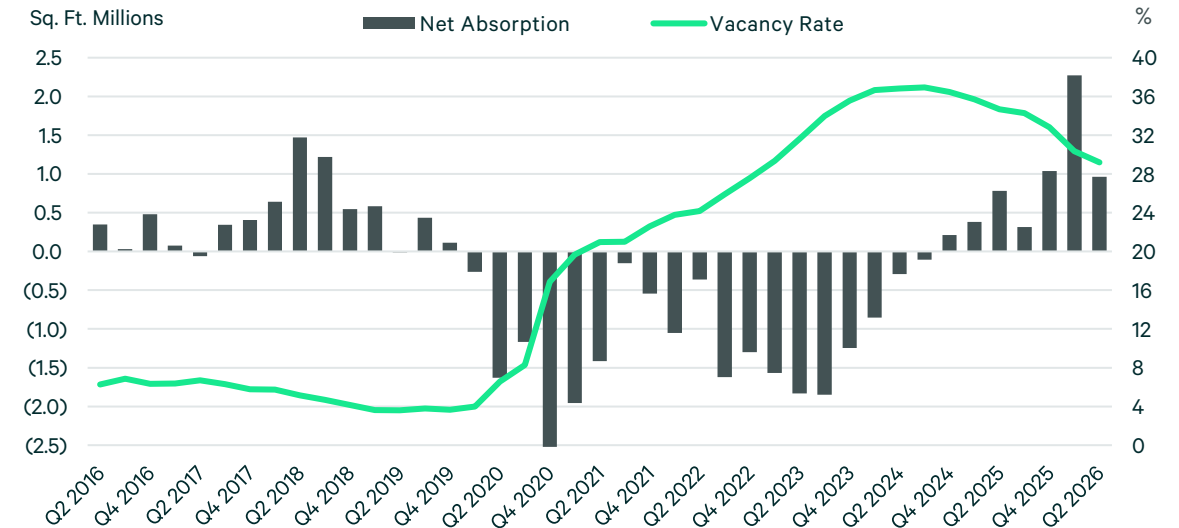
FSG/YR Direct Lease Rate

Note: Arrows indicate change from previous quarter.

Market Overview

- Seven consecutive quarters of positive net absorption, totaling 6.0 million sq. ft., reduced vacancy from 36.9% in Q3 2024 to 29.2% in Q2 2026.
- Expanding AI companies contributed to 963,980 sq. ft. of net absorption in Q2 2026, elevating year-to-date net absorption to 3.2 million sq. ft.
- Vacancy declined by 120 basis points to 29.2% quarter-over-quarter and 550 basis points year-over-year. This was the largest year-over-year decline on record.
- Asking rents increased to \$72.96, up 2.5% quarter-over-quarter and 6.2% year-over-year, marking the largest year-over-year rent increase since Q1 2020.
- Leasing activity totaled 2.9 million sq. ft. in Q2 2026, bringing the year-to-date total to 7.3 million sq. ft. Leasing activity totaled 10.9 million sq. ft. in 2025.
- Tenants-in-the-market demand surged to a record high of 8.9 million sq. ft., with 40% of this total expected to be for expansion space.

Figure 1: Historical Net Absorption and Vacancy



Source: CBRE Research, Q2 2026

Q4 2020 Net Absorption: -6.9 million sq. ft.

Vacancy

Vacancy declined 120 basis points (bps) to 29.2%, ending the quarter below 30% for the first time since Q1 2023. Vacancy reached an all-time high of 36.9% in Q3 2024. Since then, vacancy has declined by 770 bps due to a slowdown in post-pandemic space givebacks and an AI-driven surge in leasing activity.

In Q2 2026, vacancy varied widely by submarket. Mission Bay/China Basin recorded the lowest vacancy at 17.0%, while Yerba Buena registered the highest vacancy at 62.7%. Mission Bay/China Basin's vacancy peaked at 41.2% in Q1 2024. Since then, rapid expansion by OpenAI and a few other tech tenants has reduced the vacancy by more than half, leaving very few options available for other large block users. North Waterfront/Jackson Square, a popular submarket for venture capital firms and small AI startups posted the second-lowest vacancy at 20.3%. South Financial District and Potrero Hill have also seen significant AI-driven vacancy reductions in recent quarters. In South Financial District, AI companies of all sizes have absorbed much of the space that was offloaded by several tech heavyweights between 2020 and 2023. This has reduced the submarket's vacancy from 34.3% in Q2 2024 to 24.4% in Q2 2026. In Potrero Hill, PDR and robotics-focused AI startups have reduced vacancy from 39.1% in Q3 2024 to 23.9% in Q2 2026. At the other end of the spectrum, Yerba Buena maintained the highest vacancy at 62.7%, driven by a sustained absence of tenant demand in the Mid-Market neighborhood.

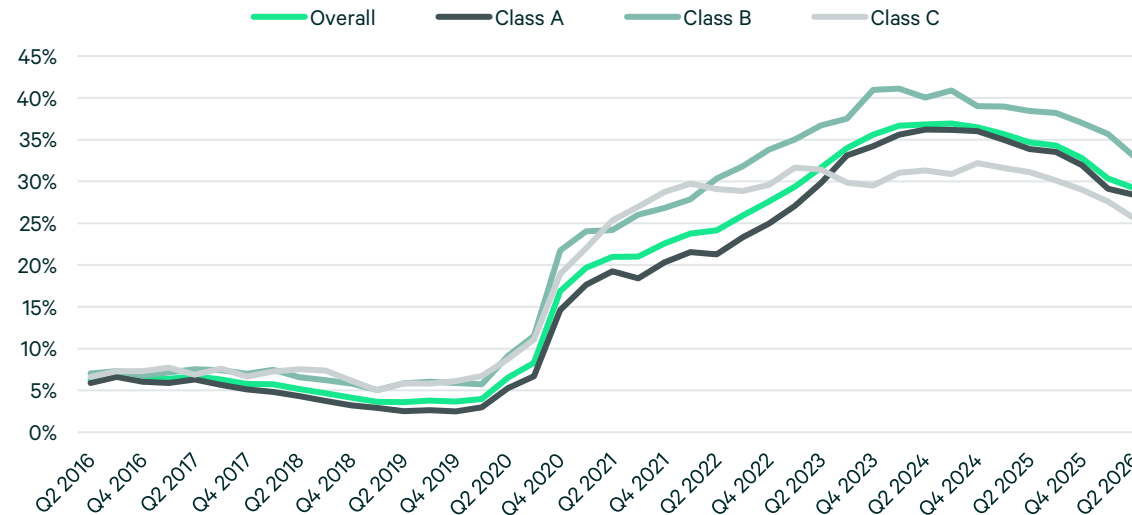
Net Absorption

The market posted 963,980 sq. ft. of positive net absorption, continuing its streak of occupancy growth for the seventh quarter in a row. Occupancy gains were concentrated among Class B properties that captured 47% of net absorption, followed by Class A properties with 42% of the growth. This marked a shift from the previous six quarters, during which Class A properties had outsized occupancy growth.

At the submarket level, South of Market West led the market with 491,072 sq. ft. of net absorption, fueled by the City of San Francisco's 502,082 sq. ft. new lease at 1455 Market St. South Financial District had the second-highest occupancy gains at 454,722 sq. ft., followed by South of Market at 163,024 sq. ft. Growth in these two submarkets was driven by expanding AI and tech startups. At the other end, Mission Bay/China Basin saw the steepest decline, shedding 150,979 sq. ft. of occupancy, which was primarily driven by a large tech sublease disposition.

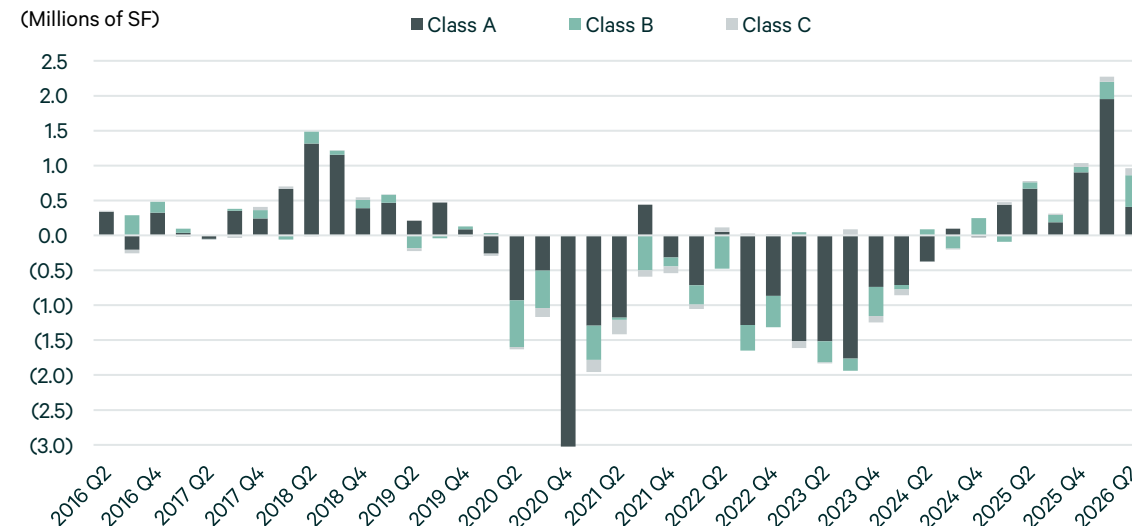
Year-to-date net absorption was +3.2 million sq. ft., marking the highest year-to-date total on record. Since vacancy peaked at 36.9% in Q3 2024, the market has regained 6.0 million sq. ft. of occupancy.

Figure 2: Vacancy Rates by Class



Source: CBRE Research, Q2 2026

Figure 3: Net Absorption Trend



Source: CBRE Research, Q2 2026

Q4 2020 Net Absorption: -6.9 million sq. ft.

Asking Rents

The overall average asking rate climbed 2.5% to \$72.96, up 6.2% year-over-year, marking the largest year-over-year increase since Q1 2020. Class A properties drove most of the increase, with rents growing 2.5% quarter-over-quarter to \$80.28 and 5.6% year-over-year. Class B rents declined by 0.4% quarter-over-quarter to \$54.53 but remained 3.4% higher than the year prior. Class C rents declined by 2.4% quarter-over-quarter to \$38.93, down 3.2% from a year prior. Although market-wide asking rents have grown for the past five quarters, they remained 17.5% below the all-time high of \$88.40 recorded in Q1 2020. Class A rents remained 12.7% below the \$91.94 peak recorded in Q1 2020.

In Q2 2026, Mission Bay/China Basin commanded the highest rents at \$111.93, marking a 26.5% increase year-over-year. Other submarkets that recorded significant year-over-year rent increases included South of Market (+16.4%), Potrero Hill (+10.0%), North Waterfront/Jackson Square (+9.1%), and South Financial District (+7.5%). High leasing activity, tightening supply, and a growing number of tenants in the market motivated landlords to hike rents in these submarkets. In contrast, Civic Center/Van Ness was the only submarket that registered a year-over-year decline in asking rents, falling 13.7% to \$43.17. This decline was attributed to low leasing activity and low supply of Class A space.

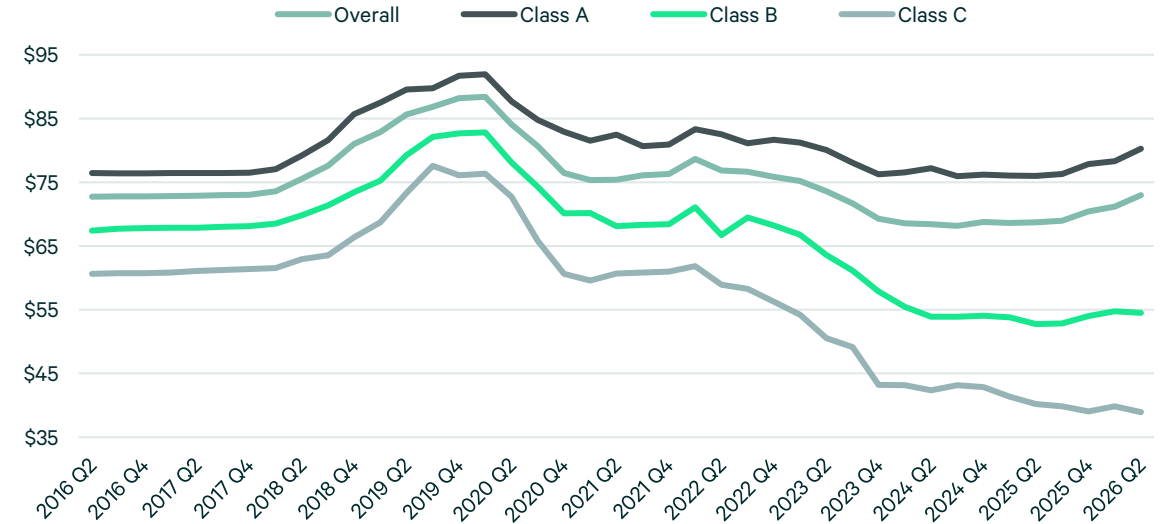
Leasing Activity

Leasing activity totaled 2.9 million sq. ft. in Q2 2026, bringing the year-to-date total to 7.3 million sq. ft., a 24% increase compared to the first half of 2025. By square footage, Class A properties accounted for 77% of Q2 2026 leasing activity, while Class B and C properties accounted for 16% and 6%, respectively. New leases represented 62% of leasing activity, followed by renewals at 30%, and subleases at 8%.

At the submarket level, South Financial District led with 1.1 million sq. ft. of leasing activity, which was mainly driven by AI companies. North Financial District followed with 578,639 sq. ft. of leasing activity, which was mostly driven by professional services firms. South of Market West had 507,707 sq. ft. leased, anchored by the City of San Francisco’s 502,082 sq. ft. new lease at 1455 Market St. In fourth and fifth place were South of Market and North Waterfront/Jackson Square with 390,332 sq. ft. and 208,712 sq. ft. leased, respectively. Leasing in these two submarkets was primarily driven by AI companies.

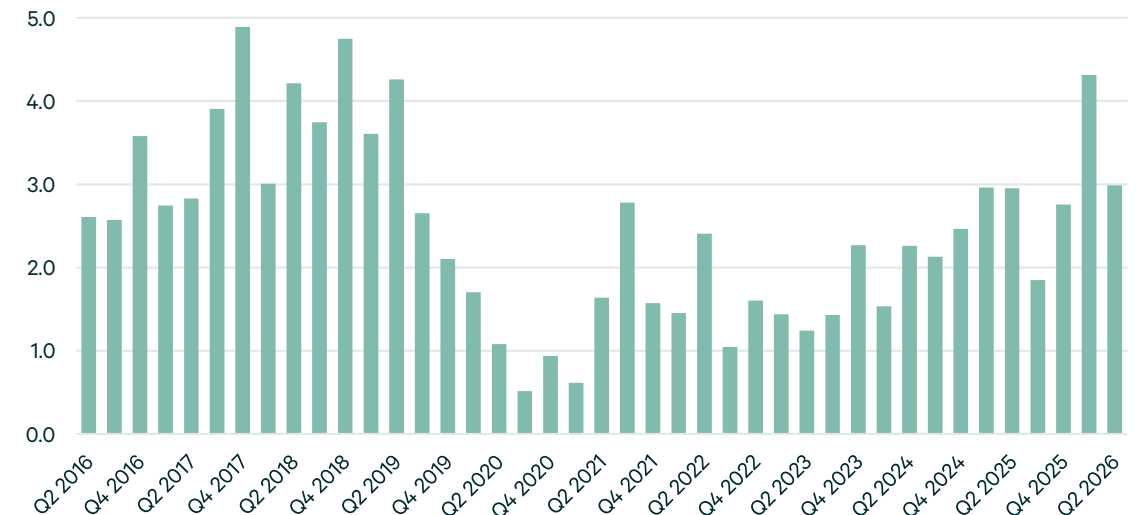
Year-to-date leasing activity has been concentrated in submarkets with an abundant supply of Class A spaces near amenities and regional transit options. South Financial District led year-to-date leasing activity with 3.0 million sq. ft. leased, followed by North Financial District with 1.5 million sq. ft. leased. South of Market had 675,436 sq. ft. leased, and Mission Bay/China Basin had 598,537 sq. ft. leased.

Figure 4: Average Direct Asking Rate by Class



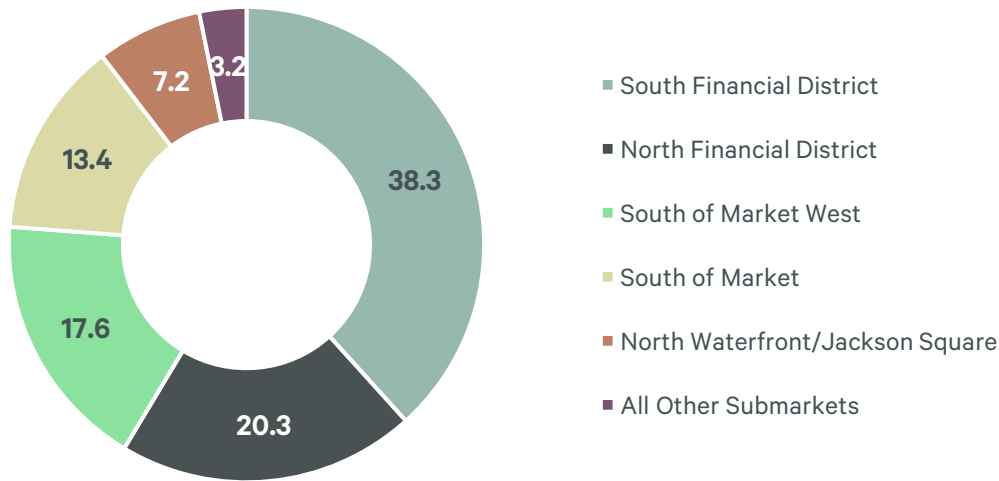
Source: CBRE Research, Q2 2026

Figure 5: Leasing Activity Trend (Millions of Sq. Ft.)



Source: CBRE Research, Q2 2026

Figure 6: Leasing by Submarket (% of Total Activity)



Source: CBRE Research, Q2 2026

Construction Activity

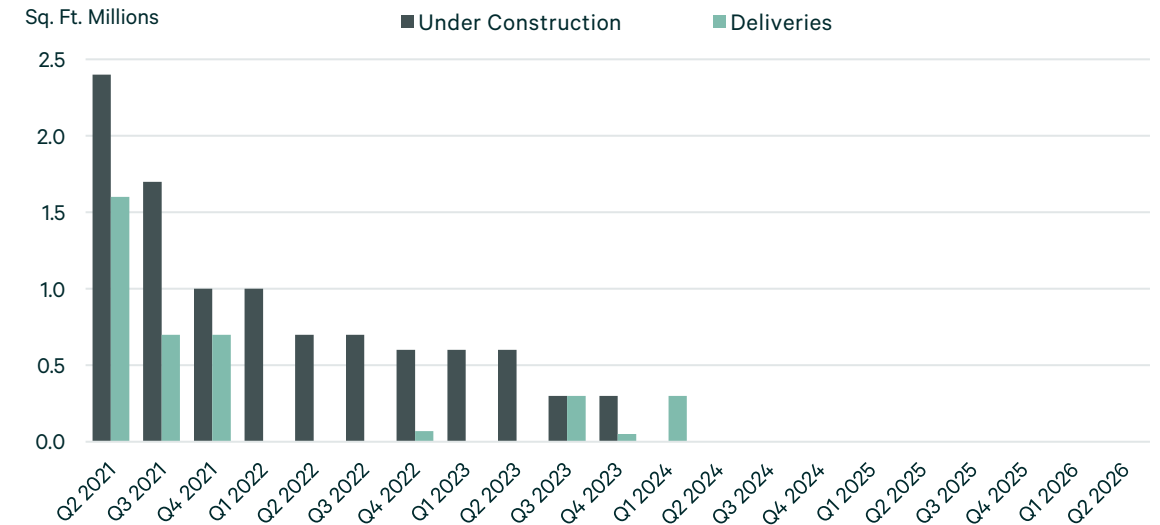
In Q2 2026, the market recorded 0 sq. ft. under construction and 0 sq. ft. of construction delivered, extending the absence of new development that has persisted since Mission Rock – Building B was delivered in Q1 2024. Due to the recent surge in leasing activity, which has contributed to tightening supply in high quality Class A buildings, several significant projects are aiming to break ground within the next 12 months, with delivery dates slated for 2029 or later.

Figure 7: Top Lease Transactions

Tenant	Sq. Ft. Leased	Transaction Type	Address	Submarket
City of San Francisco	502,082	New Lease	1455 Market St	South of Market West
Anthropic	249,646	New Lease	500 Howard St	South Financial District
PwC	201,226	Renewal	405 Howard St	South Financial District
Ripple	124,547	Renewal	600 Battery St	North Waterfront/Jackson Sq.
Planet Labs	110,123	Renewal	645 Harrison St	South of Market
Anthropic	72,019	New Lease	405 Howard St	South Financial District
LangChain	69,789	Sublease	303 2nd St	South of Market
Assort Health	62,384	New Lease	One Market Plaza	South Financial District

Source: CBRE Research, Q2 2026

Figure 8: Construction Activity



Source: CBRE Research, Q2 2026

Market Statistics by Class

Figure 9: Market Statistics by Class

Property Class	Net Rentable Area (SF)	Total Vacancy (%)	Total Availability (%)	Direct Availability (%)	Sublease Availability (%)	Avg. Direct Asking Rate (\$/SF FSG/yr)	Q2 2026 Net Absorption (SF)	YTD 2026 Net Absorption (SF)	Deliveries (SF)	Under Construction (SF)
Class A	66,557,038	28.4	31.5	26.9	4.7	80.28	405,635	2,358,262	-	-
Class B	18,235,899	33.0	35.0	31.1	3.9	54.53	454,757	699,458	-	-
Class C	5,312,555	25.6	25.9	24.7	1.1	38.93	103,588	179,206	-	-
Total	90,105,492	29.2	31.9	27.6	4.3	72.96	963,980	3,236,926	-	-

Source: CBRE Research, Q2 2026

Market Statistics by Submarket

Figure 10: Market Statistics by Submarket

Submarket	Net Rentable Area (SF)	Total Vacancy (%)	Total Availability (%)	Direct Availability (%)	Sublease Availability (%)	Avg. Direct Asking Rate	Class A Asking Rate (\$/SF FSG/yr)	Q2 2026 Net Absorption (SF)	YTD 2026 Net Absorption (SF)	Deliveries (SF)	Under Construction (SF)
North Financial District	27,966,481	31.2	33.4	31.6	1.8	72.93	78.07	(77,044)	176,051	-	-
South Financial District	26,019,343	24.4	28.9	25.2	3.7	80.37	82.40	454,722	1,652,867	-	-
North Waterfront/Jackson Square	6,089,927	20.3	22.1	18.9	3.2	70.99	83.15	66,414	145,283	-	-
South of Market	9,131,859	33.9	38.0	26.0	12.0	73.76	84.82	163,024	277,902	-	-
Yerba Buena	4,151,514	62.7	63.4	60.0	3.4	66.69	81.25	(16,751)	95,618	-	-
South of Market West	3,514,778	39.1	39.1	25.0	14.1	49.44	55.51	491,072	537,579	-	-
Mission Bay/China Basin	4,801,531	17.0	17.8	12.8	5.0	111.93	111.93	(150,979)	263,760	-	-
Potrero Hill	2,804,932	23.9	26.4	20.6	5.9	54.28	65.15	2,384	91,911	-	-
Civic Center/Van Ness	1,808,567	23.1	23.1	23.0	0.1	43.17	43.75	(1,230)	33,690	-	-
Union Square	3,816,560	26.8	27.1	25.5	1.6	52.79	66.24	32,368	(37,735)	-	-
Total	90,105,492	29.2	31.9	27.6	4.3	72.96	80.28	963,980	3,236,926	-	-

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.

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