Occupiers return and pull vacancy lower

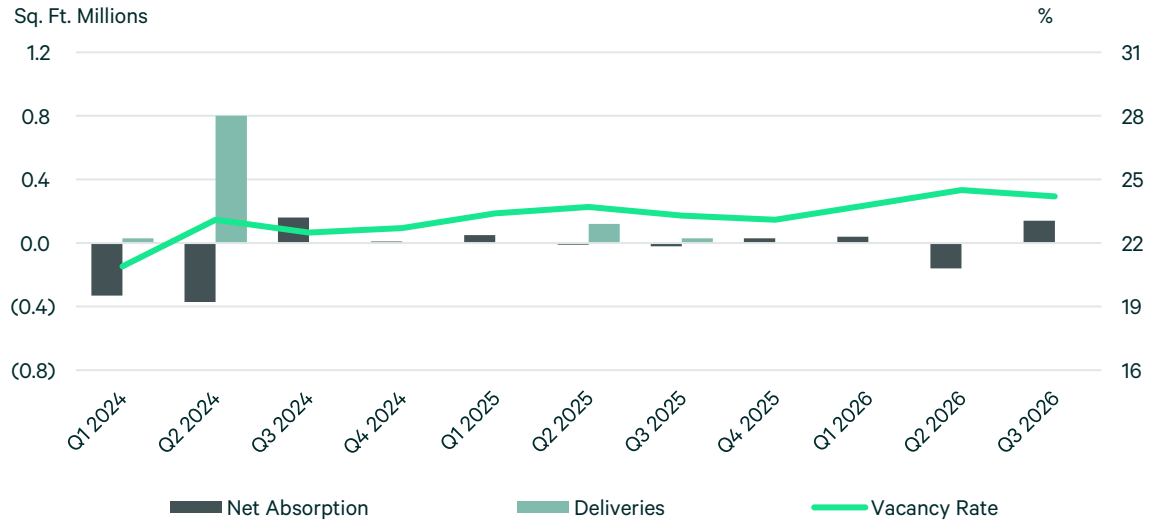
▼ 24.2%	▲ 137,700	▶ 0	▲ 338,000	▲ $7.25
Vacancy Rate	SF Net Absorption	SF Construction Delivered	SF Under Construction	Avg. Direct Asking Rate (FSG/MTH)

Note: Arrows indicate change from previous quarter.

Market Overview

- Net absorption turned positive at 138,000 square feet (sq. ft.), a swing of 298,000 sq. ft. from the negative 160,000 sq. ft. recorded in Q2 2026 and the market's strongest quarterly result since Q3 2024.
- Vacancy fell 30 basis points (bps) quarter-over-quarter (QoQ) to 24.2%, though it remains 90 bps higher year-over-year (YoY), while availability held steady at 26.4%.
- Average direct asking rent reached $7.25 per sq. ft., up from $7.21 in Q2 2026 and $6.76 in Q3 2025, a 7.2% YoY gain. Class A held near its peak at $8.62, a slight step down from $8.64 last quarter.
- Leasing volume moderated to 960,000 sq. ft. from 1.03 million sq. ft. (msf) in Q2 2026, with renewals accounting for the three largest transactions of the quarter.
- Active requirements ended at 2.8 msf across 50 tenants. Six tenants pursued requirements exceeding 100,000 sq. ft., while AI firms drove approximately 39% of total demand (sq. ft). totaling roughly 1.1 msf.

Figure 1: Historical Net Absorption, Deliveries, and Vacancy



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Vacancy

In Q3, vacancy for the San Francisco Peninsula came in at 24.2%. Class A vacancy fell to 27.9%, down 40 bps QoQ, 20 bps YoY. though still 155 bps above Q3 2024. Class B shifted in the same direction at 20.5%, down 40 bps QoQ, though still 230 bps above year-ago levels and 250 bps above Q3 2024. Class C was the exception, rising to 15.3%, up 50 bps QoQ, 200 bps YoY and 240 bps from two years ago, a sign that cost-conscious tenants have not absorbed the space left behind at the bottom of the market.

Submarket conditions varied. San Bruno/Millbrae held the tightest vacancy at 5.9%, followed by Palo Alto/East Palo Alto at 16.0%, where demand for well-located Class A product keeps space off the market. Redwood City/Redwood Shores posted the highest rate at 40.3% where 67,000 sq. ft. of positive absorption pulled the rate lower QoQ. South San Francisco followed at 33.3% down 40 bps QoQ.

Sublease space played a modest role. Sublease vacancy measured 6.7% in Class A, up 20 bps QoQ, with Class B at 1.8% and Class C at 0.2%, each up 10 bps QoQ. Across the Peninsula, 1.86 msf of sublease space sat vacant at quarter end, a sizeable shadow market but one that grew only marginally this quarter.

Figure 2: Vacancy Rates by Class



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Asking Rent

The overall average direct asking rate reached $7.25 per sq. ft., up from $7.21 in Q2 2026 and $6.76 in Q3 2025, and 15.3% above the $6.29 recorded in Q3 2024. Class A remains the premium tier at $8.62, flat against $8.64 last quarter but ahead of $7.87 in Q3 2025. Landlords of quality product have kept face rates intact through a 170 bps rise in vacancy since Q3 2024, the pricing discipline that has defined this cycle on the Peninsula.

Menlo Park and Palo Alto/East Palo Alto again set the top of the market, with Class A rents of $12.37 and $10.05 per sq. ft., respectively, and Class B and Class C pricing above most other submarkets. South San Francisco at $8.95, Belmont/San Carlos at $8.75 and Redwood City/Redwood Shores at $7.85 form the next tier of Class A pricing, while Burlingame, Daly City/Brisbane, Foster City and San Mateo offer the market's value options at $6.00-$6.29. Class B and Class C rents are discounted starting from as low as $2.08, with the lowest pricing concentrated in South San Francisco, Burlingame, Daly City/Brisbane, Foster City and San Bruno/Millbrae.

Figure 3: Average Direct Asking Rate by Class



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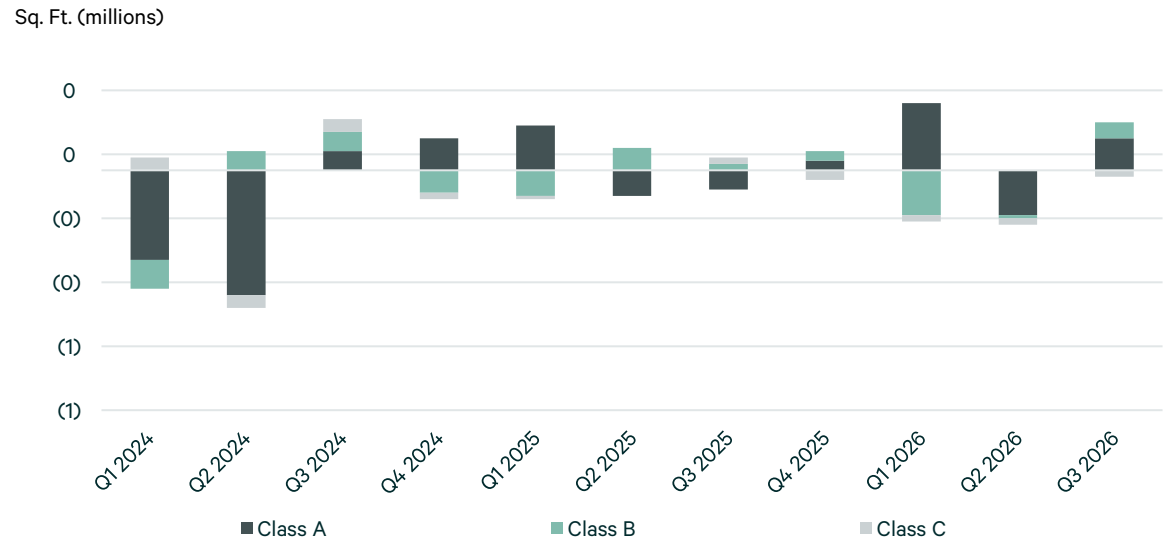
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Net Absorption

Net absorption swung back into positive territory in Q3 2026. Occupiers took 138,000 sq. ft. more space than they returned, a 298,000 sq. ft. improvement on the negative 160,000 sq. ft. posted in Q2 2026 and a clear step up from the negative 25,000 sq. ft. recorded in Q3 2025. Class A led with 103,000 sq. ft. and Class B added 50,000 sq. ft., more than offsetting a 15,000 sq. ft. loss in Class C.

Redwood City/Redwood Shores drove the quarter with 67,000 sq. ft. of positive absorption, 58,000 of which occurred in Downtown Redwood City. This was followed by Palo Alto/East Palo Alto at 49,000 sq. ft. led by Downtown Palo Alto at 34,000 in positive net absorption. Additionally, Burlingame (14,000 sq. ft.), Menlo Park (12,000 sq. ft.), South San Francisco (8,000 sq. ft.) and San Mateo (2,000 sq. ft.) also added occupancy. Daly City/Brisbane recorded the largest loss at negative 13,000 sq. ft., with smaller move-outs of negative 1,000 sq. ft. each in Foster City and San Bruno/Millbrae. Six of 10 submarkets posted positive absorption this quarter.

Figure 4: Net Absorption Trend



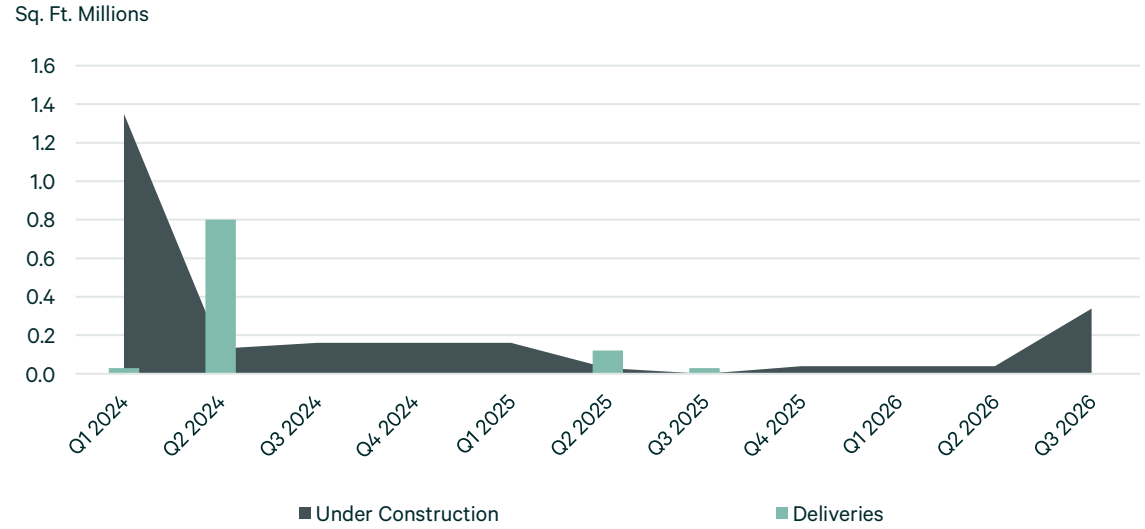
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Construction Activity

The market recorded no deliveries in Q3 2026 and none year-to-date, against no completions in Q2 2026 and 33,000 sq. ft. in Q3 2025. Space under construction increased dramatically from 39,000 sq. ft. to 338,000 sq. ft. QoQ.

Redwood City/Redwood accounts for most of the 338,000 sq. ft. underway. The 240,000 sq. ft. 1900 Broadway St. project in Redwood City/Redwood Shores is 50.0% pre-leased and is the only property in the pipeline with committed tenancy. San Mateo holds Parallel on Claremont (39,285 sq. ft.) which is 0.0% pre-leased, and Palo Alto/East Palo Alto adds 58,150 sq. ft. at 2525 Park Boulevard, also unleased. With vacancy just above 24%, those three projects will deliver into a market that already carries ample options.

Figure 5: Construction Activity



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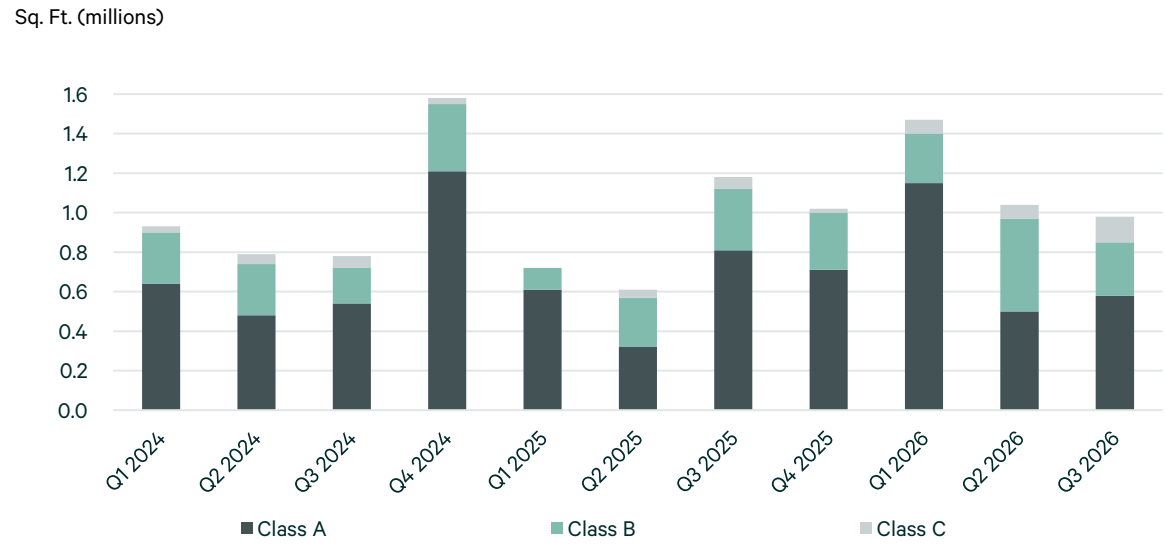
Leasing Activity

Leasing activity leased in Q3 2026 but held up well year-to-date. Tenants signed 960,000 sq. ft., down 9.0% QoQ from 1.03 msf and 14.3% YoY from 1.12 msf in Q3 2025, bringing volume through three quarters to 3.47 msf. Renewals carried the quarter. Box's 237,000 sq. ft. renewal at 900 Jefferson Ave accounted for roughly a quarter of all activity on its own, and RingCentral (84,000 sq. ft.) and Guidewire Software (79,000 sq. ft.) followed with renewals of their own. New leases came in smaller and skewed toward growth-stage and AI occupiers, including Sunday Robotics, BitGo and Diffusion AI.

Activity concentrated in two submarkets. Redwood City/Redwood Shores led with 400,000 sq. ft. of leasing, or 41.6% of the quarter's total, and San Mateo followed with 181,000 sq. ft., or 18.8%. Palo Alto/East Palo Alto contributed 117,000 sq. ft.

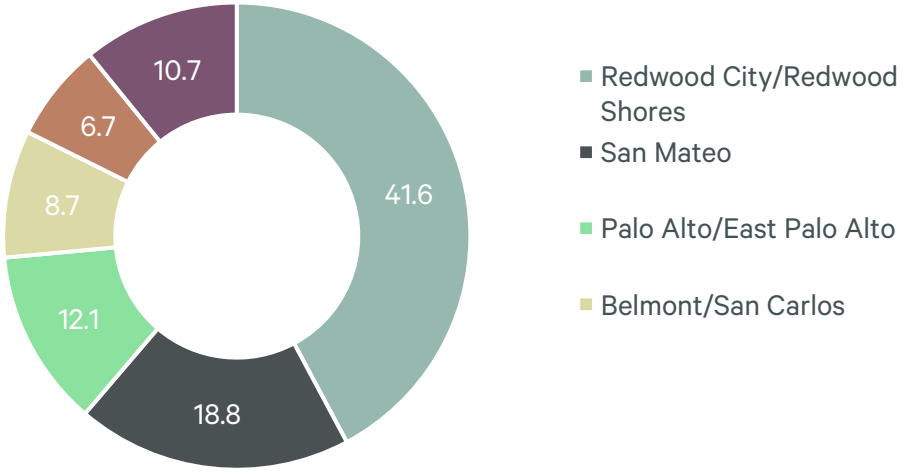
Leasing activity skewed heavily toward small deals. Ninety-two deals came in under 25,000 sq. ft. making up 54.5% of leasing activity. One mid-sized deal landed between 25,000 to 50,000 sq. ft., two deals between 50,000 to 100,000 sq. ft., and Box took the top with the quarter's only deal above 100,000 sf.

Figure 6: Leasing Activity Trend



Source: CBRE Research, Q3 2026

Figure 7: Leasing by Submarket (% of Total Activity)



Source: CBRE Research, Q3 2026

Figure 8: Key Lease Transactions

Tenant	Sq. Ft. Leased	Transaction Type	Address	Submarket
Box	237,000	Renewal	900 Jefferson Ave	Redwood City/Redwood Shores
RingCentral	84,000	Renewal	20 Davis Dr	Belmont/San Carlos
Guidewire Software	79,000	Renewal	970 Park Pl	San Mateo
Sunday Robotics	37,000	New Lease	305 Walnut St	Redwood City/Redwood Shores
BitGo	23,000	New Lease	4085 Campbell Ave	Menlo Park
Diffusion AI	20,000	New Lease	100 Oracle Pkwy	Redwood City/Redwood Shores

Source: CBRE Research, Q3 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	-	(3,000)	-	-
Burlingame	3.56M	21.8	22.6	7.0	15.6	4.16	6.29	14,000	(148,000)	-	-
Daly City/Brisbane	1.13M	18.4	20.1	20.1	-	3.87	6.25	(13,000)	(74,000)	-	-
Foster City	2.53M	22.9	23.2	16.1	7.1	4.88	6.00	(1,000)	99,000	-	-
Menlo Park	5.60M	20.4	24.0	15.8	8.2	9.97	12.37	12,000	(150,000)	-	-
Palo Alto/East Palo Alto	8.01M	16.0	18.8	15.4	3.4	9.29	10.05	49,000	21,000	-	58,000
Redwood City/Redwood Shores	7.66M	40.3	41.1	39.3	1.7	7.15	7.85	67,000	296,000	-	240,000
San Bruno/Millbrae	1.25M	5.9	7.3	5.9	1.4	4.22	-	(1,000)	(10,000)	-	-
San Mateo	8.33M	22.0	26.0	20.1	5.9	5.38	6.23	2,000	(23,000)	-	39,000
South San Francisco	2.34M	33.3	34.9	31.2	3.8	8.15	8.95	8,000	10,000	-	-
Total	**41.65M**	**24.2**	**26.4**	**21.1**	**5.3**	**7.25**	**8.62**	**138,000**	**20,000**	**0**	**338,000**

Source: CBRE Research, Q3 2026

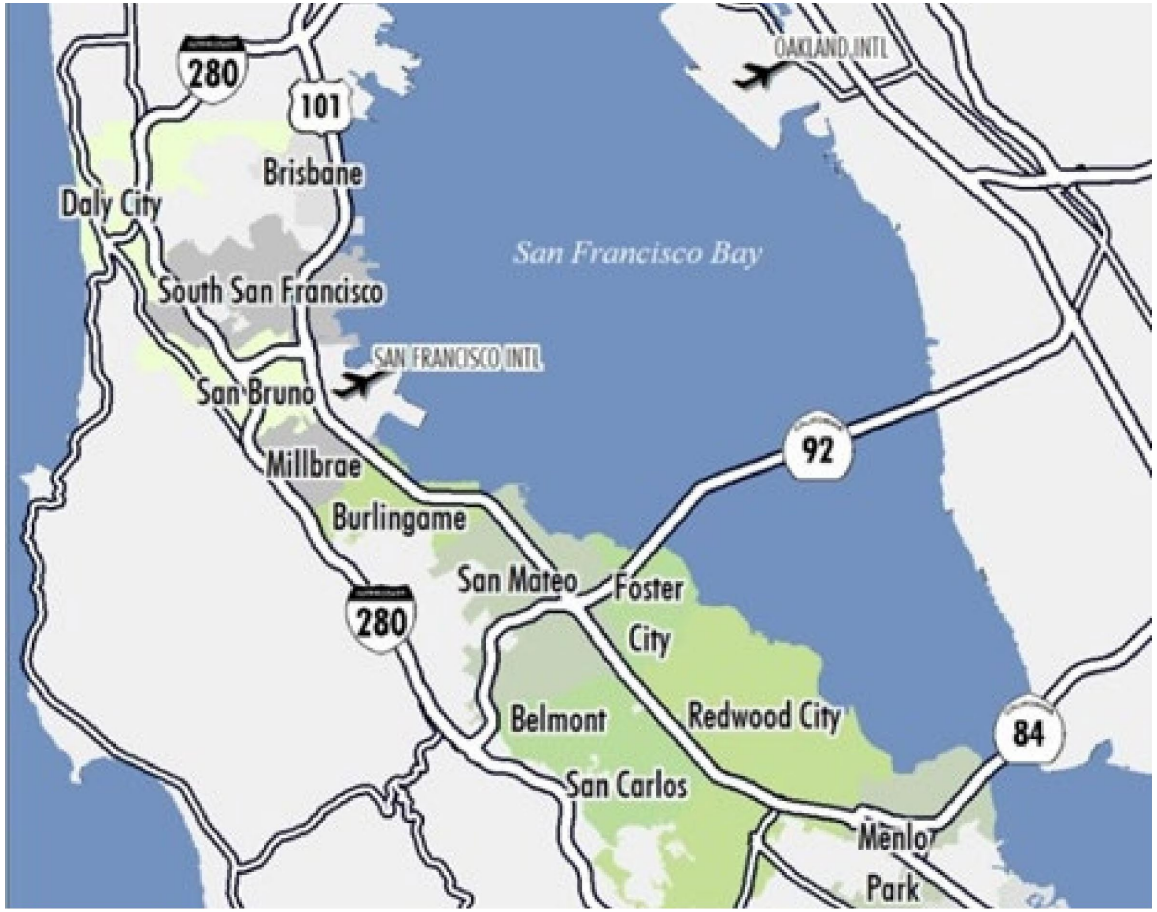
Figure 10: Metro Market Statistics by Class

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	24.48M	27.9	30.7	22.7	8.0	8.62	103,000	176,000	-	338,000
Class B	12.02M	20.5	22.2	20.3	1.9	5.79	50,000	(101,000)	-	-
Class C	5.15M	15.3	16.1	15.9	0.2	4.46	(15,000)	(56,000)	-	-
Total	**41.65M**	**24.2**	**26.4**	**21.1**	**5.3**	**7.25**	**138,000**	**20,000**	**0**	**338,000**

Source: CBRE Research, Q3 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.

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