

INVESTMENT FORECAST

Office
San Francisco Metro Area

IPA
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ADVISORS

2026

Office Market Improves as Downtown Vacancy Gets an Assist From AI-Driven Demand

Leasing gathering steam, aided by tech tailwinds. After years of muted performance, San Francisco's office market is showing firm signs of recovery. Quarterly net absorption remained positive throughout 2025 for the first time since 2018, and momentum is poised to carry into this year. Office demand growth in downtown San Francisco has been strong, aided by the core's emergence as an epicenter of the AI start-up ecosystem. Firms such as Anthropic and Abridge AI have recently signed downtown leases, while OpenAI is reportedly exploring additional space this year. San Mateo County is also attracting healthcare and robotics startups, including Neuralink, Nurix, and Skild AI, though vacancy compression trends there have been less evident, partly because of much lower overall vacancy rates. If tech momentum holds, the metro should continue to recover and is positioned to see the largest vacancy compression nationwide in 2026.

Sales activity constraints could be backing off. Despite improving office demand last year, many transactions were still penciled during a period of weaker expectations. Roughly half of sales involved high-vacancy buildings trading well below prior valuations as lease-up challenges weighed on income, both in downtown San Francisco and in San Mateo County. These headwinds should ease this year as vacancy continues to compress. With the metro's average price per square foot still 25 percent below 2019 levels — the steepest drop among all major U.S. markets — opportunistic buyers may find value in well-located assets with strong leasing momentum. Tech-sector volatility will remain a factor for San Francisco. Still, early-stage startups, with their small headcounts and many in rapid-growth phases, could be more resilient to layoff-driven office demand pressure, offering some relief for the market even if a slowdown occurs.

2026 MARKET FORECAST

-0.4%



Employment: While hiring continues in certain sectors such as education and health care, San Francisco will, overall, shed some jobs this year, led by traditionally office-using industries.

550,000
sq. ft.



Construction: This year, the metro will see its smallest office delivery volume in a decade, with over 80 percent of the space coming online in San Mateo County.

-80 bps



Vacancy: A second consecutive year of positive net absorption, following five years of net space losses, will push the vacancy rate down to 25.0 percent by year-end.

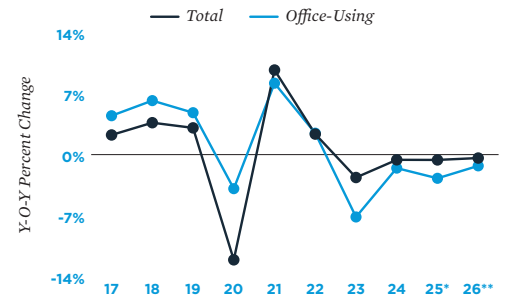
+1.3%



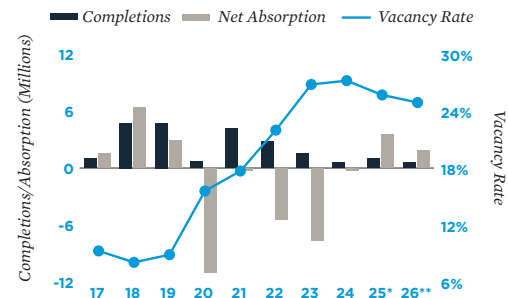
Rent: Continued declines in vacancy will support rent growth, with the average asking rent reaching \$44.05 per square foot, ranking fourth highest among major U.S. markets.

INVESTMENT: Office properties under 50,000 square feet led sales growth last year. With startups favoring smaller, flexible leases, investors could continue to target these assets to attract founder-led companies.

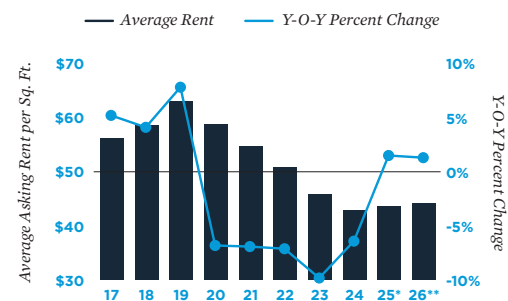
Employment Trends



Supply and Demand



Rent Trends



* Estimate ** Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Office

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of January 2026. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and office data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guarantee regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.