The Axiant Group
COMMERCIAL REAL ESTATE SERVICES



Market Overview

A quarterly publication of the San Francisco office market by The Axiant Group **2nd Quarter 2026**

San Francisco's Commercial Real Estate Recovery Gained Momentum

Leasing remained strong, vacancy declined, net absorption turned positive, and investors demonstrated a willingness to purchase stabilized properties. The market remains far from a full recovery, but its direction has clearly shifted.

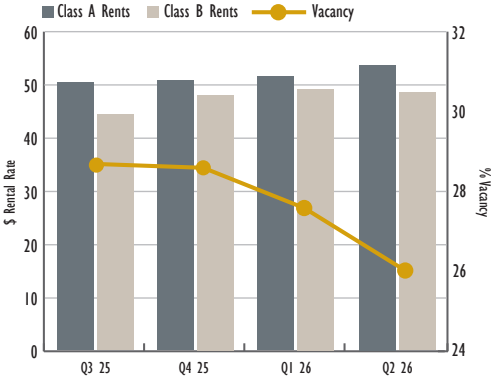
Vacancy and Asorption

In Q2 2026, the Class A office vacancy rate in San Francisco's downtown core fell sharply from an adjusted 27.3% to 25.5%. This 180-basis-point decline was the largest quarterly improvement since before the COVID-19 pandemic.

Gross absorption reached 1,451,042 square feet, up from 1,399,669 square feet in Q1. Net absorption turned strongly positive at 888,008 square feet, compared with negative 106,181 square feet in the previous quarter—a quarter-over-quarter improvement of nearly 1 million square feet.

Class A asking rents increased from $51.39 to $53.52 per square foot, reflecting stronger demand for high-quality space. Class B rents declined slightly, from $49.04 to $48.43 per square foot. Class B net absorption remained positive at 158,379 square feet, up from 94,170 square feet in Q1. Class AA view space remained in exceptionally strong demand, with asking rents frequently exceeding $100 per square foot.

SAN FRANCISCO FINANCIAL CORE



AI Leasing Moves the Office Recovery Forward

The quarter's leading story was the continued expansion of artificial-intelligence companies. Together AI signed a six-year lease for 153,000 square feet at 2 Henry Adams Street in Showplace Square, expanding from 3,000 square feet. The transaction demonstrates that AI demand is not confined to the Financial District. Showplace Square, Mission Bay and South of Market are becoming important clusters for artificial intelligence, robotics and advanced-technology companies.

The recovery remains uneven. Renovated buildings with strong amenities, flexible layouts and desirable locations are outperforming older commodity properties. Less competitive buildings will require aggressive pricing, improvements or alternative-use strategies.

San Francisco Makes a Major Commitment to Mid-Market

The City and County of San Francisco approved a 502,000-square-foot expansion at 1455 Market Street, increasing its total occupancy to 930,000 square feet. The 21-year transaction is valued at more than $1 billion and represents the city's largest office lease since 2018.

Several departments are expected to consolidate in the building, creating a major government employment center in Mid-Market. The move should increase foot traffic and support restaurants, retailers and service businesses while helping reposition a neighborhood affected by remote work, office vacancies and tenant departures.



1455 Market Street

The lease demonstrates how a major user can secure favorable long-term economics while contributing to neighborhood revitalization. The consolidation could also allow older city facilities, including One South Van Ness Avenue, to be considered for redevelopment, housing or other uses.

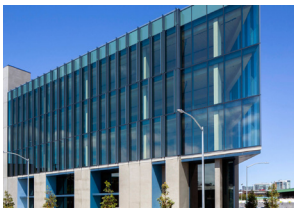
Investors Begin Paying for Quality Again

The quarter's largest office sale was Strada Investment Group's $103 million acquisition of One De Haro Street in Showplace Square. The recently constructed mass-timber building is fully leased to Samsara and traded well above many distressed downtown office transactions completed during the past several years.

The sale does not mean office values have broadly returned to pre-pandemic levels. Instead, it confirms a widening divide between stabilized, high-quality assets and buildings burdened by vacancy, deferred improvements or significant near-term lease expirations.

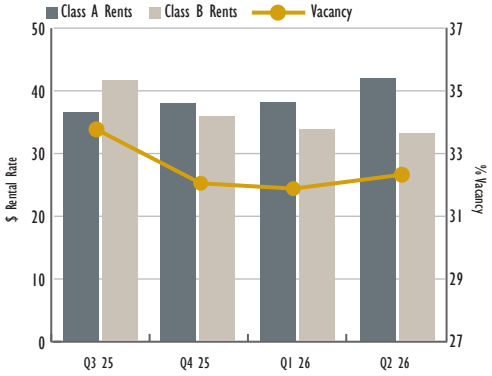
Capital is returning to San Francisco, but investors remain selective. Properties offering strong tenancy, modern construction, differentiated amenities and long-term income stability are beginning to command premium pricing, while older commodity buildings continue to trade at significant discounts.

Together, these developments show a market entering a new phase. Tenant demand is improving, public-sector occupancy is supporting Mid-Market, and investors are again rewarding quality. The next stage will depend on whether AI-driven growth expands into a broader range of industries, neighborhoods and office buildings.

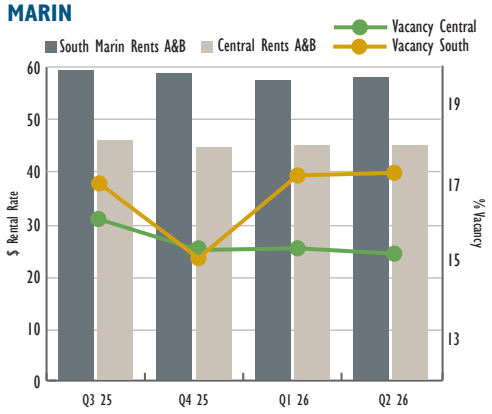


One De Haro

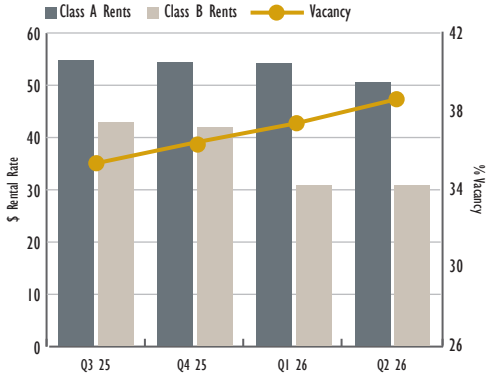
SAN FRANCISCO SOMA



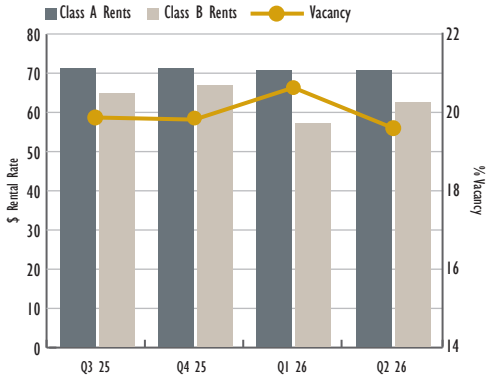
MARIN



OAKLAND CBD



PENINSULA



Where's the Space?

Submarket	Direct SF	Vacancy (direct)	Sublet SF	Vacancy (sublet)	Total SF	Vacancy (Total)
Top 10 Build.	2,055,855	16.00%	570,091	4.40%	2,625,946	20.50%
Fin. Dist A	11,653,862	23.70%	873,302	1.80%	12,527,164	25.50%
Fin Dist. B	3,225,282	26.20%	228,016	1.90%	3,453,298	28.00%
SOMA A	2,319,991	34.30%	508,050	7.50%	2,828,041	41.90%
SOMA B	2,661,283	22.10%	587,191	4.90%	3,248,474	27.00%

Major Leases Completed in the Second Quarter

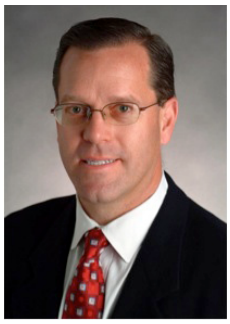
Tenant	Sq. Ft.	Address
City of San Francisco	502,082	1455 Market Street **** ***
Antropic	249,646	500 Howard Street ****
PwC	201,226	405 Howard Street *
Together AI	153,311	2 Henry Adams Street ****
Plant Labs	110,123	645 Harrison Street * ***
Anthropic	72,091	405 Howard Street ****
LangChain	69,798	303 Second Street **
Physical Intelligence	61,455	808 Brannan Street **

*Renewal **Sublease ***Expansion ****New lease

The Axiant Group Can Help You

Do you want information about rents and space available in your building? Are you interested in subleasing or terminating your lease? Is your lease expiring in the next three years?

Contact The Axiant Group. We have handled transactions from 1,000 to 1,000,000 sq.ft. in the Bay Area and throughout the U.S. The average tenure of our brokers is over 20 years. We have handled assignments for clients including Chevron U.S.A., Coblentz, Patch, Duffy & Bass, Oracle Corporation, PG&E, Sutro & Company, Zurich Scudder Investments, Charles Schwab, Texas Pacific Group, Club One, Moss Adams, and many others.



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