The Axiant Group
COMMERCIAL REAL ESTATE SERVICES



Market Overview

A quarterly publication of the San Francisco office market by The Axiant Group **3rd Quarter 2026**

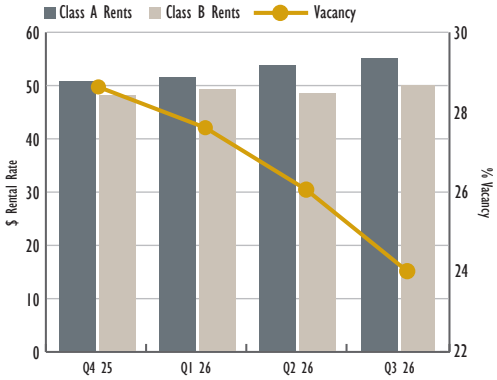
San Francisco's Office Recovery Gains Momentum as AI Leasing Accelerates

San Francisco's office market strengthened during the third quarter of 2026, with technology and artificial intelligence companies continuing to lead demand. Leasing activity, positive absorption, and improving vacancy levels point toward a more durable recovery. While the market still faces significant challenges, the pace of tenant commitments has become increasingly encouraging for owners of competitive downtown and South of Market properties.

Vacancy and Asorption

Market-wide estimates indicate overall office vacancy declined to approximately 25.3%, an improvement of 140 basis points from the preceding quarter. Net absorption totaled roughly 1.3 million square feet, extending the market's run of positive quarterly absorption to five consecutive quarters. Year-to-date absorption reached approximately 3.7 million square feet, a meaningful reversal from the prolonged contraction that followed the pandemic.

SAN FRANCISCO FINANCIAL CORE



Leasing activity totaled approximately 3.4 million square feet, among the strongest quarterly results since 2019. Active tenant requirements approached 9.8 million square feet. These figures suggest that demand is broadening, although newer buildings with modern amenities cotinue to capture a disproportionate share of transactions.

Sierra AI Signs Quarter's Largest Lease

The quarter's largest reported office transaction was Sierra AI's approximately 351,000-square-foot renewal and expansion at 185 Berry Street in Mission Bay.



185 Berry Street

The commitment underscores the speed at which artificial intelligence companies are scaling secure substantial blocks of space for future growth. Sierra's transaction also demonstrates the importance of established technology districts with strong transportation connections, nearby talent, and buildings capable of accommodating expanding teams.

Large commitments of this kind remove meaningful inventory from the market and help establish confidence among landlords evaluating long-term capital improvements.

Rental Rates and Investment Activity

Improving occupancy is beginning to influence rental expectations. Landlords of highly amenitized Class A properties are increasingly positioned to defend asking rents, although concessions and tenant improvement allowances remain important components of negotiations.

The investment market also showed renewed activity. 875 Howard Street traded for approximately $65.5 million, or $234 per square foot. These sales reflect substantially reset office valuations and growing investor interest in properties with identifiable leasing upside.



875 Howard Street

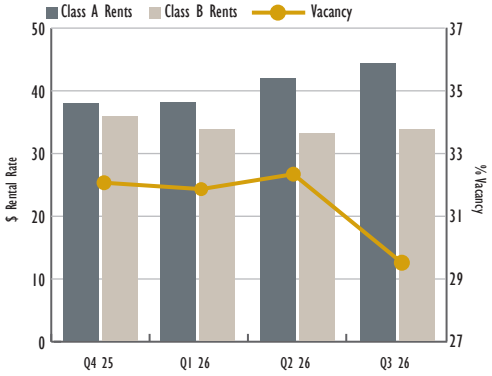
Market Outlook

San Francisco enters the final quarter of 2026 with a more constructive outlook than at any point in recent years. Limited new construction, continued AI expansion, and declining availability should support further stabilization. Nevertheless, elevated operating costs, hybrid work practices, and older buildings requiring extensive modernization will continue to constrain parts of the market. We expect the recovery to remain uneven.

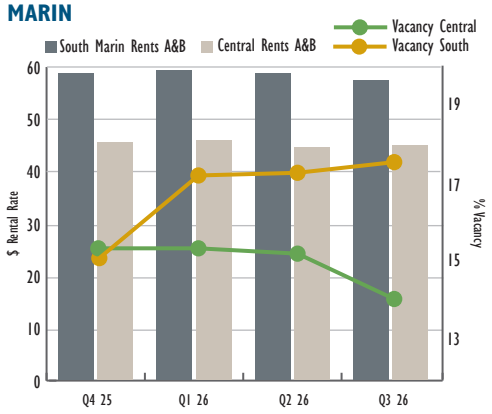
Well-located, high-quality buildings should benefit first, while less competitive assets may require additional investment, aggressive pricing, or alternative uses. The most encouraging development is that meaningful tenant growth is once again translating into measurable improvements in San Francisco office fundamentals.

For tenants, the current environment still presents opportunities to negotiate favorable economics, particularly in buildings facing substantial vacancy. For landlords, the priorities remain securing creditworthy tenants, investing selectively in building improvements, and positioning available space for fast-growing businesses. Whether this recovery spreads beyond the AI sector will be an important measure of the market's longer-term health and resilience.

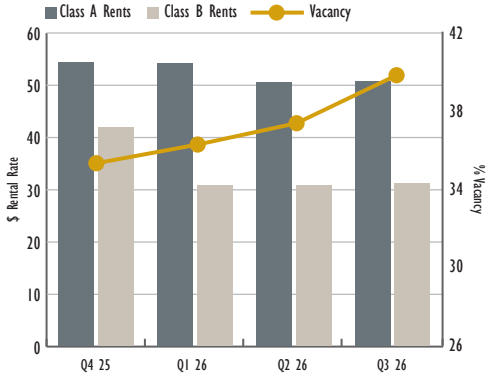
SAN FRANCISCO SOMA



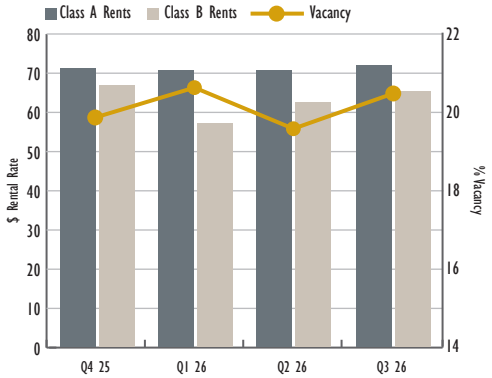
MARIN



OAKLAND CBD



PENINSULA



Where's the Space?

Submarket	Direct SF	Vacancy (direct)	Sublet SF	Vacancy (sublet)	Total SF	Vacancy (Total)
Top 10 Build.	2,169,379	16.20%	459,010	3.40%	2,628,389	19.70%
Fin. Dist A	10,583,675	21.70%	789,797	1.60%	11,373,472	23.30%
Fin Dist. B	3,258,538	25.20%	180,438	1.40%	3,438,976	26.60%
SOMA A	1,859,697	28.60%	501,626	7.70%	2,361,323	36.30%
SOMA B	2,652,983	22.00%	484,813	4.00%	3,137,796	26.00%

Major Leases Completed in the Third Quarter

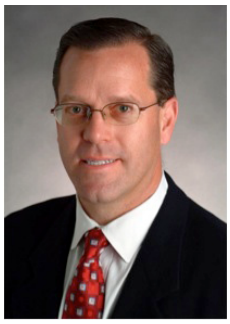
Tenant	Sq. Ft.	Address
Sierra AI	351,000	185 Berry Street * ***
Amazon	Undetermined	525 Market Street * ***
Brex	198,040	270 Brannan Street * ***
Cognition AI	183,548	333 Brannan Street **
Hinge Health	119,278	300 Mission Street ****
Airbnb	111,223	850 Brannan Street ****
OpenAI	87,827	500 Terry Francois Boulevard **
Physical Intelligence	80,964	850 Bannan 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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