

**LETTER FROM THE CEO**

“As we head into the final quarter of 2026, tenants face a noticeably tighter market than a year ago. U.S. vacancy just posted its sharpest quarterly drop in more than a decade, discounted subleases are disappearing, and very little new space is being built. In the Bay Area, AI companies are now competing with every other company for the best buildings.

Tenants still have leverage, but preparation matters more than ever. Start early, create real competition between buildings, and understand the financial position of each option. That is where we focus every engagement: protecting our clients’ economics, flexibility and choices.”



Sushma Malhotra
Chief Executive Officer

S5 Tenant Playbook for Q4 2026

- 1 Start earlier than you think.** Large blocks of high-quality space are becoming harder to find in San Francisco, New York, Boston and London.
- 2 Negotiate key deal terms early.** Free rent and improvement packages are already tightening in the strongest markets.
- 3 Understand the building’s finances.** Financial problems can affect improvements, timing and other commitments.
- 4 Know where tenants still have leverage.** Seattle, downtown Dallas, Seoul’s central business district and parts of London still offer meaningful opportunities.
- 5 Build in flexibility.** Protect your ability to grow, shrink or sublease, and consider flexible office space where it makes sense.

What the AI wave means for Bay Area tenants

AI companies are quickly changing the office market across the Bay Area. In San Francisco, they now account for roughly half of all office space leased this year. Major deals from companies like Anthropic and OpenAI are putting more competition on the best buildings and giving tenants fewer easy choices.

That pressure is spreading beyond San Francisco. Silicon Valley and San Mateo County are also seeing strong demand from AI companies, which is filling vacant space and pushing rents higher.

For tenants, the message is simple: **good space is getting harder to find, so starting early matters more than it did a year ago.**

The sublease discount window is closing

The discounted subleases that gave tenants so many choices after 2020 are disappearing. If your lease expires within the next 18 months, now is the time to start looking. Comparing direct leases and subleases early gives you more choices and more negotiating power.

The best buildings are pulling away from the rest

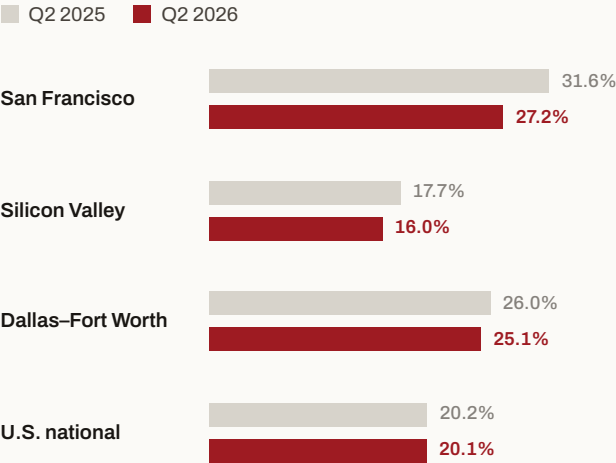
Tenant demand is concentrating in the top tier. Nationally, vacancy in top-tier Class A buildings is 12.3%, well below the 18.3% for the market overall, and that space is filling faster than everything else. It also costs more: Class A asking rents run about 15% above the market average. With very little new construction underway, the supply of Class A and A+ space keeps shrinking.

Older Class B and C buildings are a different market. Many still carry large amounts of empty space, which gives tenants far more room to negotiate on rent, free months and improvement dollars.

Tenant move: decide early whether you truly need top-tier space, or whether a well-located Class B building with a strong improvement package can do the job. That choice shapes your budget and your leverage.

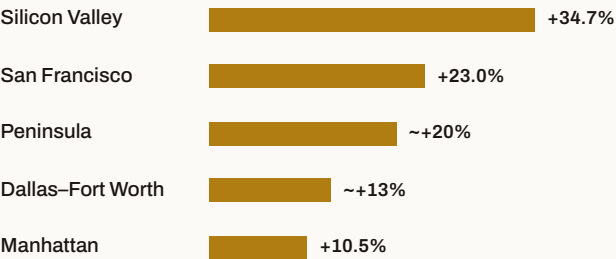
Tenant leverage is lowest where AI is leasing

Overall office vacancy rate



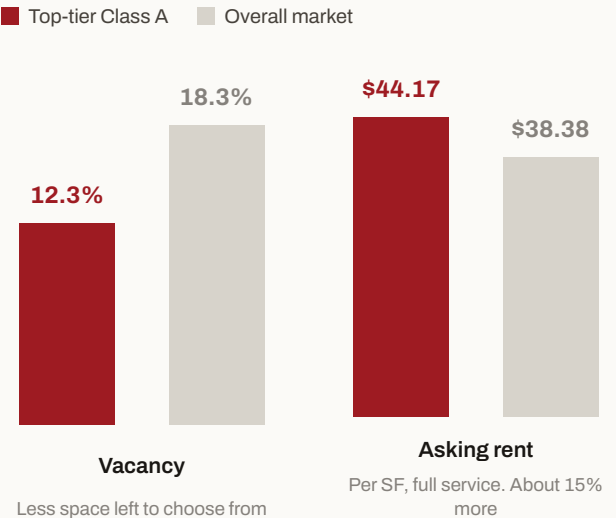
More tenants chasing the same space

H1 2026 leasing vs. H1 2025



Top-tier Class A vs. the overall market

U.S. office, Q2 2026



Tenant strategy for Q4 2026

Higher rates are affecting lease deals

The Fed raised rates again in September and borrowing costs remain high. For tenants, that shows up in negotiations: free rent, improvement allowances and other concessions become harder to secure.

Tenant move: get the important terms on the table early. The longer negotiations drag on, the more room there is for conditions to change.

Fewer new buildings means fewer choices

Very little new office space is being built, while older buildings are converted or removed from the market. The best large blocks will not be replaced quickly once they are taken.

Tenant move: if you need a large amount of high-quality space, give yourself a longer runway. Starting early keeps more options on the table.

Understand the building's financial health

Not every building is in the same financial position. More commercial mortgages are running into trouble, and that can eventually affect the tenant experience.

Tenant move: a building can look like a great deal on paper, but financial trouble means slower decisions and promises that are harder to deliver. We check those risks first.

Flexibility matters

As markets tighten, keeping your options open matters more. Coworking and flexible space can suit companies that need room today but do not want to overcommit before they know what growth looks like.

Tenant move: build flexibility into your plan so you have room to adjust as your needs change.

Where tenants stand nationally

Manhattan

Leasing is up **10.5%** year over year, and concessions are getting tougher in top buildings. Free rent is harder to negotiate.

Tenant move: lock in free rent and improvement dollars early, before the building has other offers.

Boston

Class A availability has dropped to just **8.6%**, and the best blocks are going early.

Tenant move: start negotiations well ahead of your renewal and line up alternatives.

Dallas–Fort Worth

Overall vacancy is still **25.1%**, and downtown has plenty of space to shop. The opportunity varies significantly by location.

Tenant move: compare several buildings and submarkets to create real competition.

Seattle

With Puget Sound vacancy at **28.2%**, Seattle remains one of the more favorable major markets. The biggest sublease bargains are starting to disappear, though.

Tenant move: act on the strongest sublease options while they are still available.

The best space is getting harder to find everywhere

The same pattern we are seeing in the Bay Area is showing up overseas. In major cities across Europe, companies are competing for the best buildings and locations. Step outside those most competitive areas, however, and tenants still have room to negotiate.

United Kingdom

Vacancy in London's Class A buildings is down to about 2%. AI and technology companies are the main drivers taking up space.

Tenant move: if you are planning an expansion or renewal, start early and understand your alternatives first.

India

Global companies keep expanding their local business centers for technology, finance and operations. That growth is pushing rents higher across major cities.

Tenant move: budget for higher costs at renewal and start those conversations early.

South Korea

New office buildings have opened up more choices in central Seoul, giving tenants room to negotiate. Gangnam is a different story, where good space remains difficult to find.

Tenant move: use the new supply in central Seoul as leverage; in Gangnam, start the search sooner.

Canada

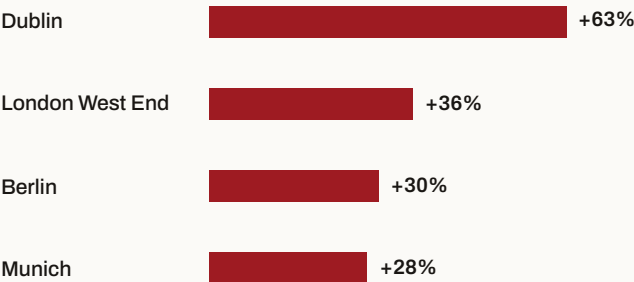
Downtown Toronto vacancy is 13.1%, while Class A availability is under 6%.

Tenant move: give yourself more time, whether it is a renewal, an expansion or a search.

The takeaway is straightforward: start early, keep multiple options open and know what else is available before committing to a deal.

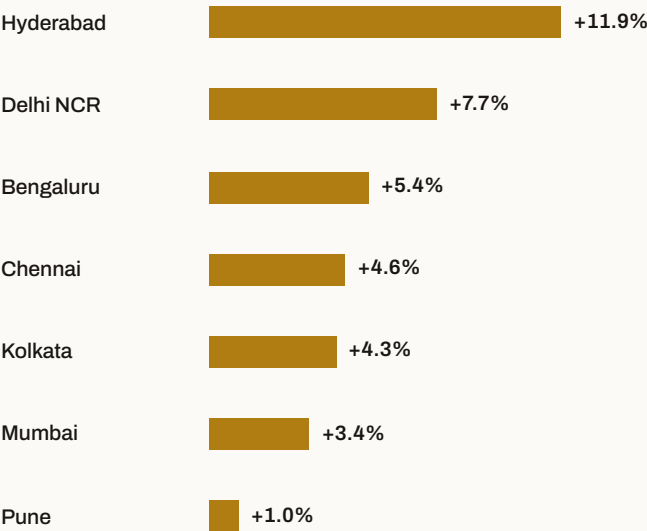
Europe: where you'll compete hardest

H1 2026 leasing vs. five-year average



India: even though S5 does everything to negotiate lowest terms, budget for higher rents at renewal

Office rental growth, Q2 2026 vs. Q2 2025



Recent deals

Markets where S5 Advisory has completed transactions for tenants.

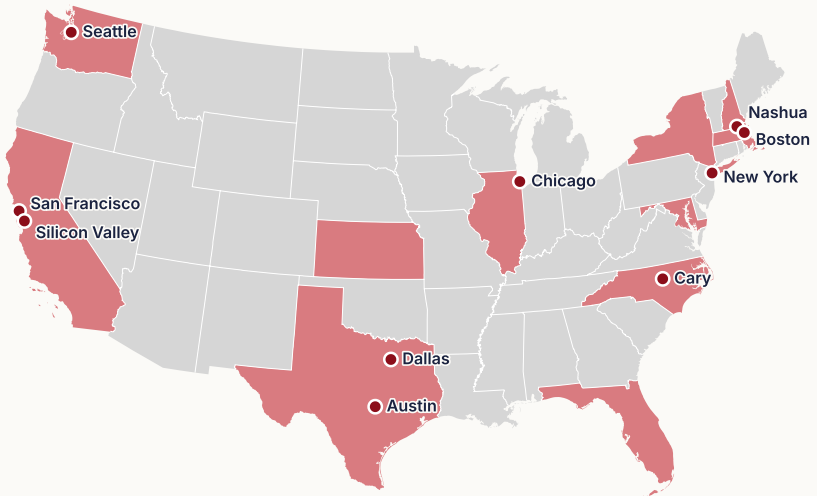
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ABOUT US

S5 Advisory brings a tenant-focused perspective shaped by experience, with insight spanning startups to Fortune 100 organizations. The firm applies a disciplined, data-driven approach to align real estate decisions with business strategy and **protect tenant capital**. Through rigorous analysis and negotiation, S5 consistently delivers measurable results: terms that typically run 20–25% better than comparable deals in the same market, benchmarked against independent market comps.

AFFILIATIONS & RECOGNITION



Lease expiring in 2027 or 2028? Now is the time to plan.

S5 Advisory represents tenants exclusively. Talk to us before you begin renewal discussions.

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