1Q25

San Francisco Office Market Overview

Market Observations

Economy

- The region's unemployment rate, at 3.8%, is 30 basis points below the national average. Nonfarm employment in the region declined marginally while the growth nationally continued to slow.
- Other Services and Trade/Transportations/Utilities were the sectors with the largest year-over-year increases in employment. All three of the office-using industries shrank in size over the last year, with a combined contraction of 1.8%.
- There has been an 11.5% decrease in office-using employment since the height of hiring in 2022. Overall office-using employment is down 1.8% year-over-year, having dropped by approximately 5,350 jobs since the end of 2024.

Leasing Market Fundamentals

- Vacancy increased quarter-over-quarter as net absorption for the first quarter of 2025 was negative 229,059 square feet. However, the amount of negative absorption has been dwindling, suggesting the start of a potential upturn for the San Francisco office market.
- Vacancy increased from 29.8% in the previous quarter to 30.4%. Availability inched downward quarter-over-quarter from 38.0% to 37.6%. Average direct asking rents, now at $68.06/SF, continued to drop quarter-over-quarter.
- Total leasing for the quarter totaled over 2.4 MSF for the first quarter. This was 20% higher than the leasing in the fourth quarter of 2024. The year-over-year continued to see an increase of roughly 33%.

Major Transactions

- The trends of the past two years persisted and was evident in the largest lease transaction of the first quarter. While Google signed the largest lease of the quarter, it is actually in the process of significantly decreasing its footprint and consolidating at Hill's Plaza. Despite a heavy reduction in its total footprint, the company remains committed to the City long-term.
- AI momentum continued as Sierra.AI took advantage of tenant-friendly market dynamics with an expansion at 235 Second Street.
- The largest sale by square footage during the quarter was Ridge Capital Investors acquisition of 33 New Montgomery from Barings for $76.3M or $315/SF. The building last traded in 2014 for $610/SF.

Outlook

- The emerging AI industry will continue to play a major role in San Francisco's office recovery as startups receiving venture capital funding expand.
- Driven by improving sentiment towards San Francisco, distressed office assets will continue to trade hands, though at less of a discount than in the past several years as buyer pools increase.

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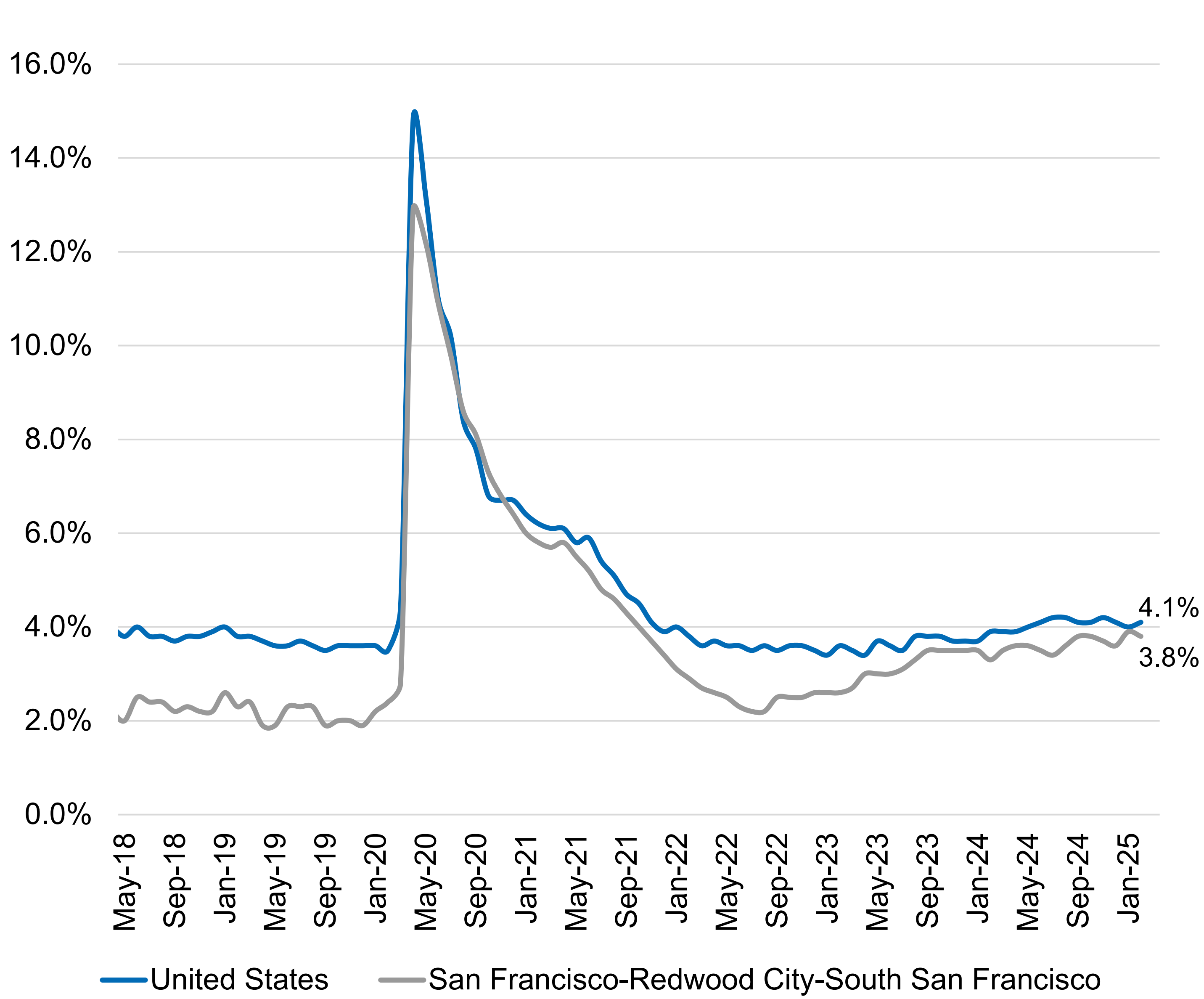
Economy

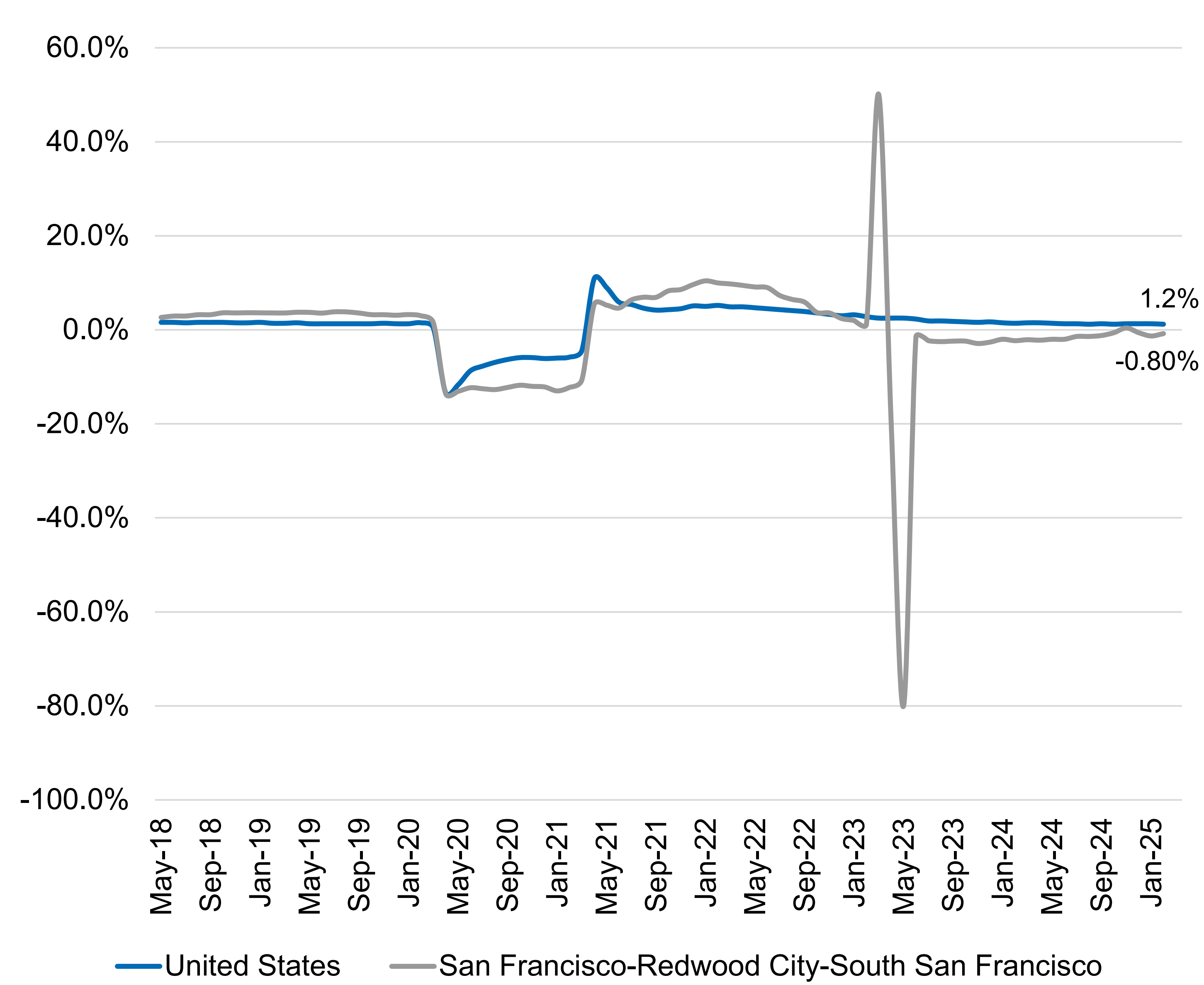
Regional Unemployment Remains Below National Level

The region's unemployment rate, at 3.8%, is 30 basis points below the national average. Nonfarm employment in the region declined marginally while the growth nationally continued to slow.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Seasonally Adjusted, 12-Month % Change

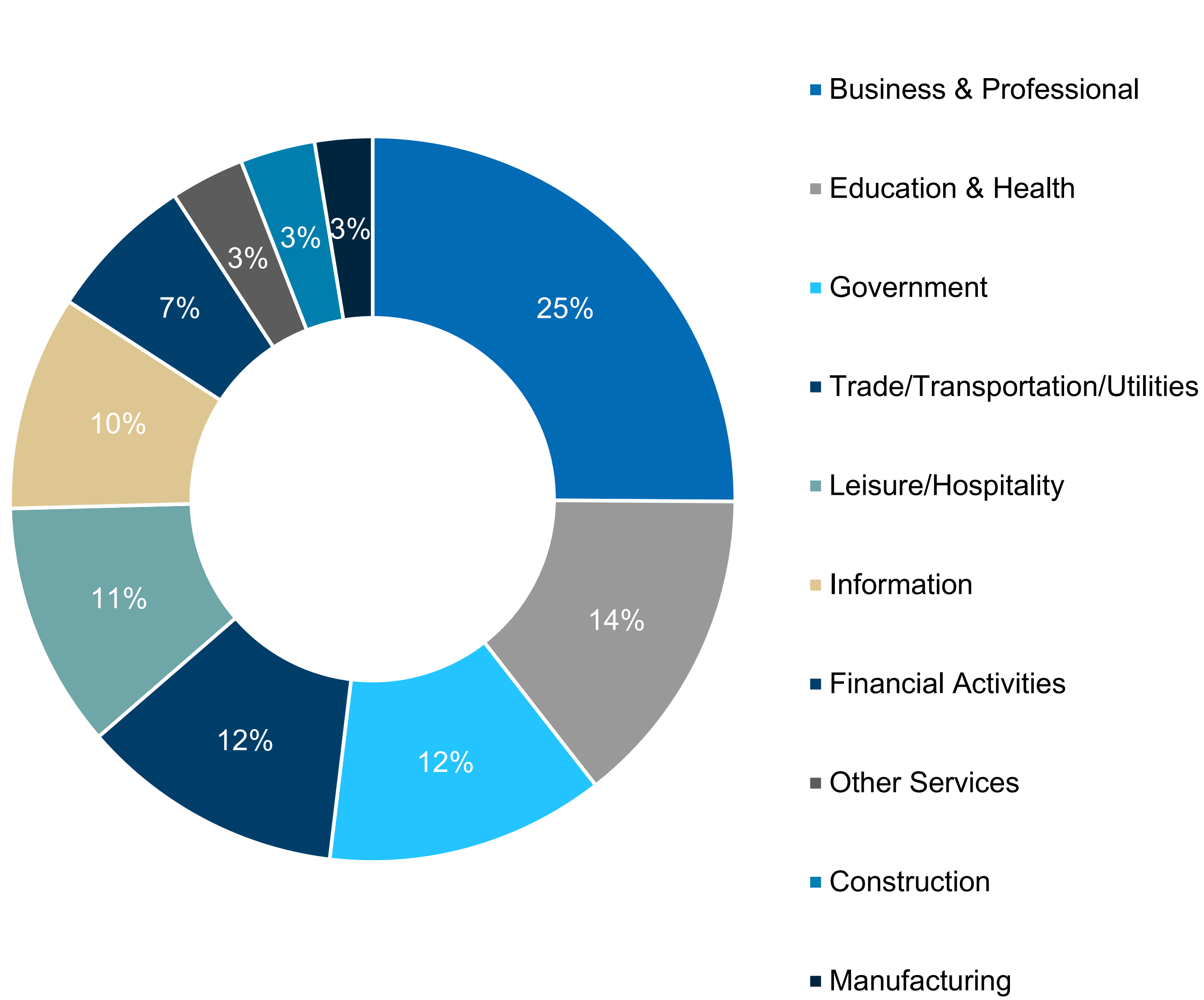


Source: U.S. Bureau of Labor Statistics, San Francisco-Redwood City-South San Francisco

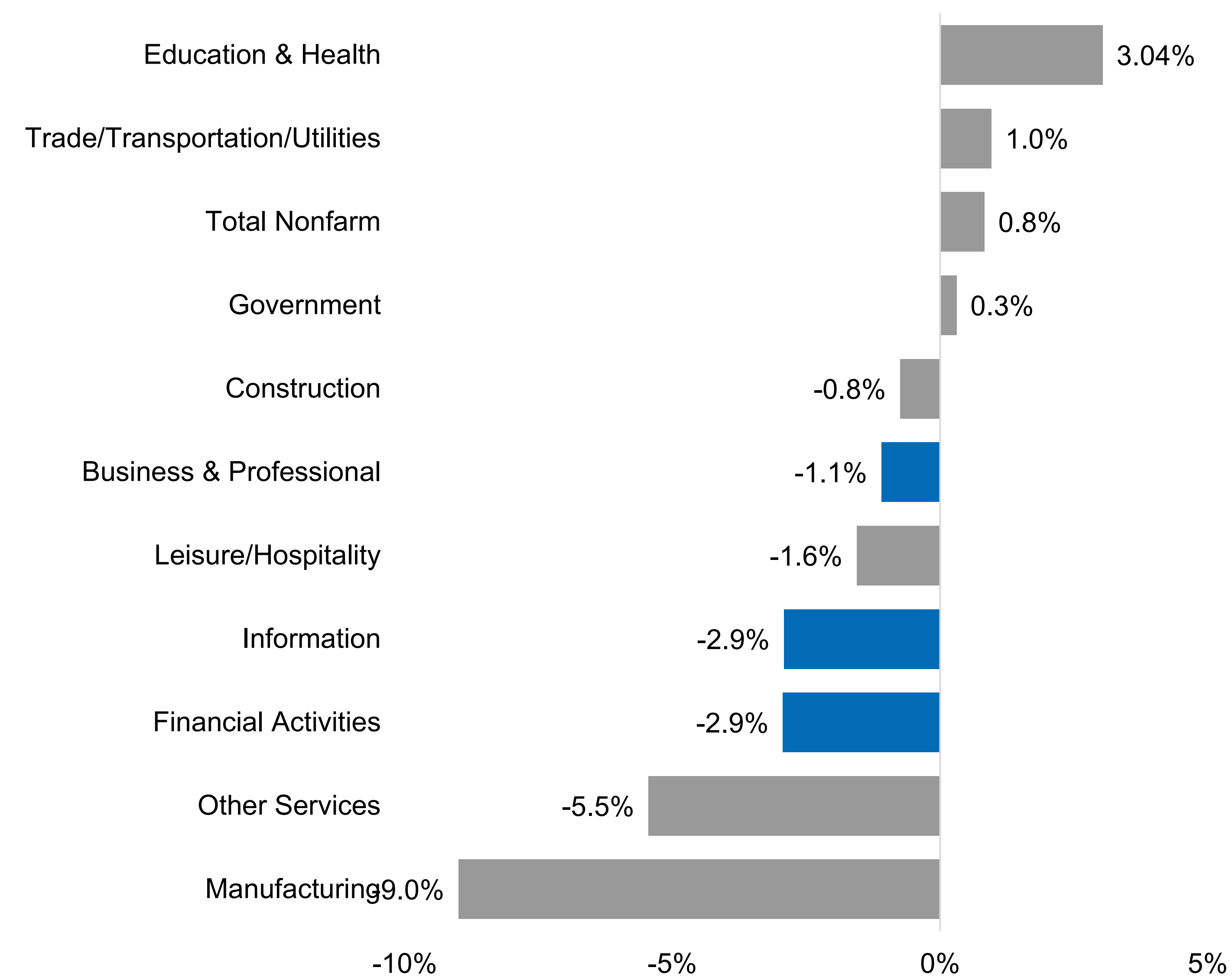
Office Using Employment Down 1.8% Year-Over-Year

Other Services and Trade/Transportations/Utilities were the sectors with the largest year-over-year increases in employment. All three of the office-using industries shrank in size over the last year, with a combined contraction of 1.8%.

Employment by Industry, Feb 2025



Employment Growth by Industry, 12-Month % Change, Feb 2025

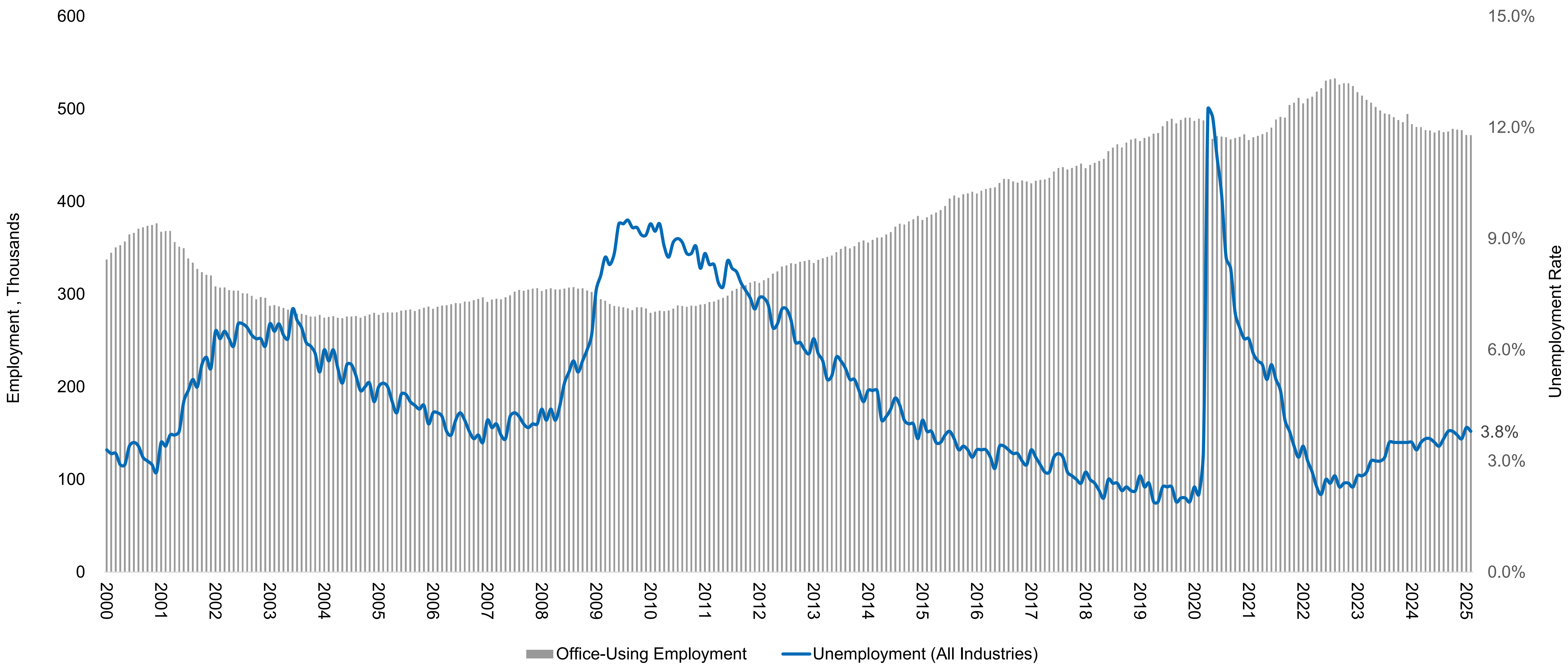


Source: U.S. Bureau of Labor Statistics, San Francisco-Redwood City-South San Francisco November Data is Preliminary

Unemployment Rate Below National Average

The overall unemployment rate of 3.8% remains below the national rate of 4.1%, but there has been an 11.5% decrease in office-using employment since the height of hiring in 2022. Overall office-using employment is down 1.8% year-over-year, having dropped by approximately 5,350 jobs since the end of 2024.

Office-Using Employment* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, San Francisco-Redwood City-South San Francisco

*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

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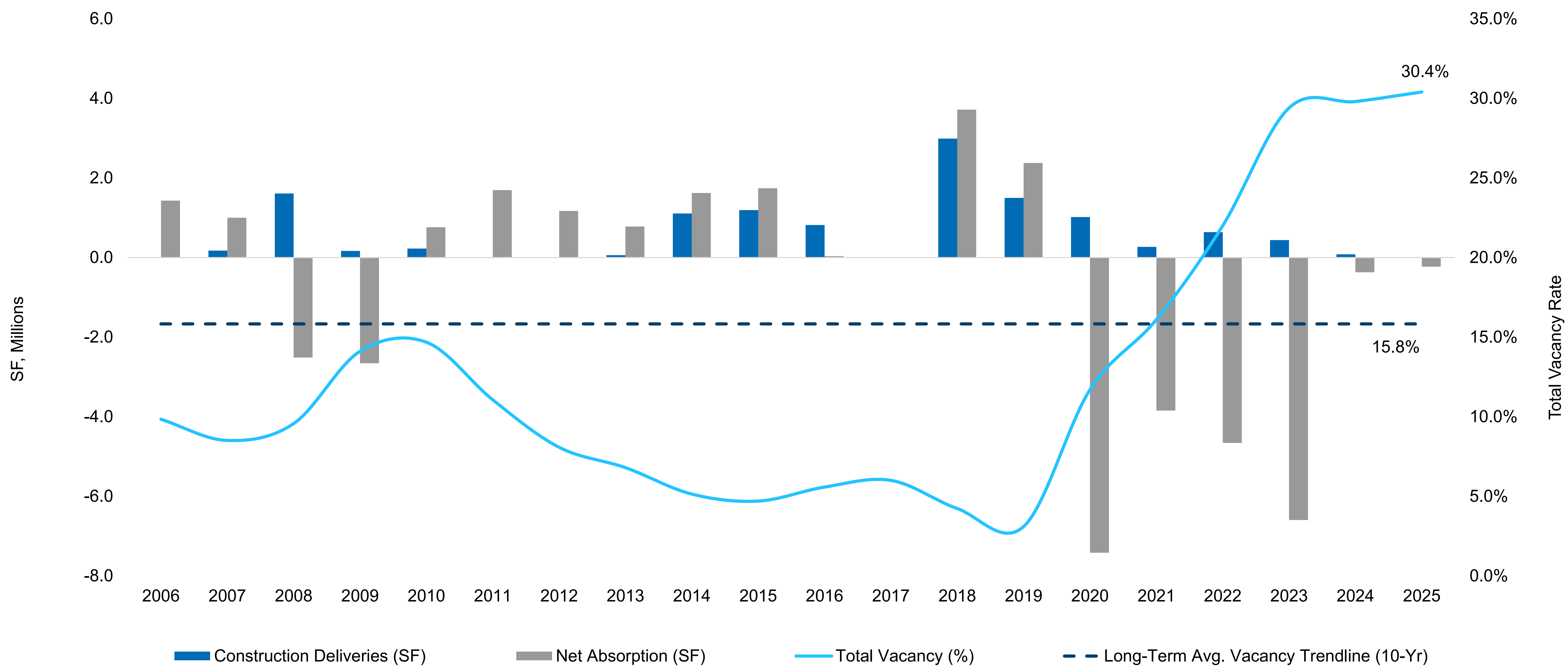
Leasing Market Fundamentals

Vacancy Increased in the First Quarter

Net absorption for the first quarter of 2025 was just over negative 229,000 square feet. The largest move-out this quarter was Gap vacating the building at 1 Harrison Street in the South Financial District. Despite starting the year with negative absorption, the market is stabilizing overall and is past the sweeping move-outs that happened from 2020-2023.

Historical Construction Deliveries, Net Absorption, and Vacancy

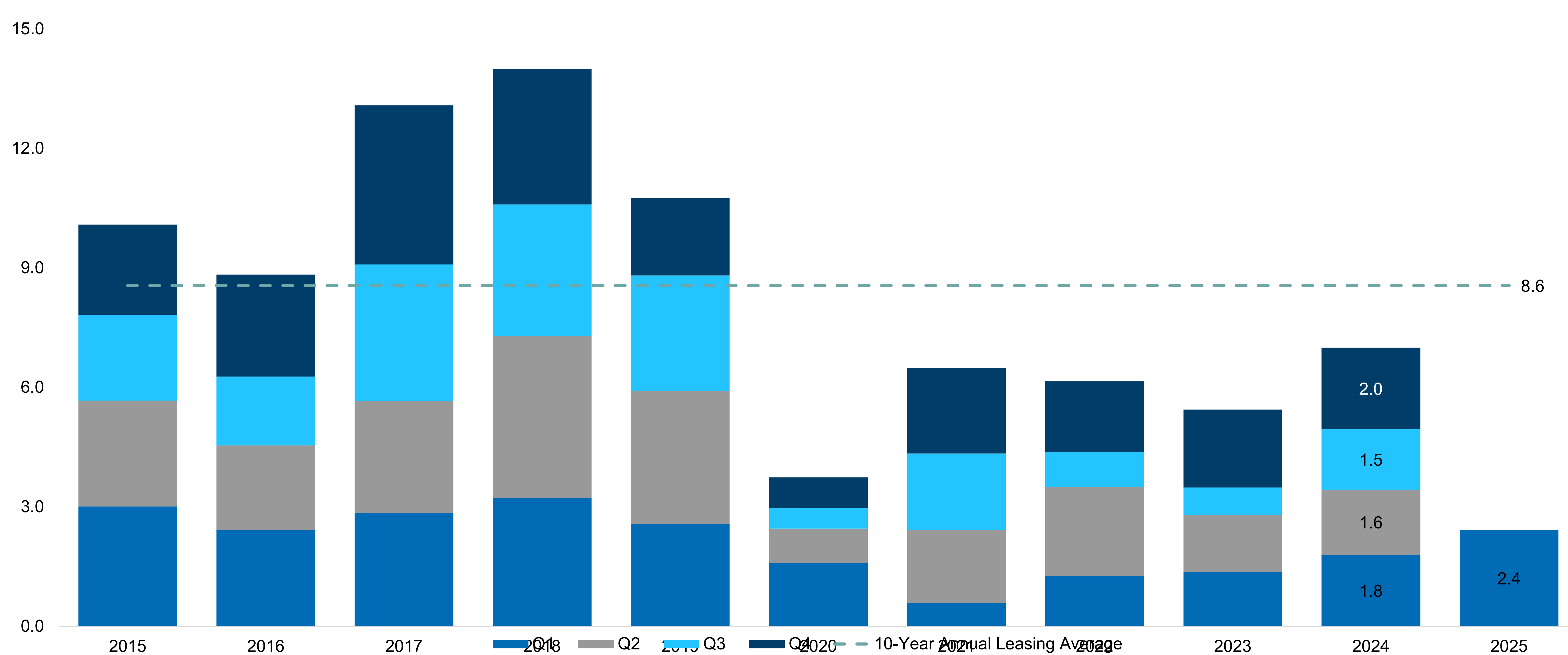


Source: Newmark Research, CoStar

First Quarter Leasing Activity Reached Its Highest Level Since 2019

Total leasing for the quarter totaled over 2.4 MSF, the highest total quarterly leasing since 19Q3. First quarter leasing is 34% of total 2024 leasing. AI companies have been leading the charge, and this quarter Sierra.AI signed an 82,104 square foot lease at 235 Second Street. But traditional companies are also making big moves, as Morgan Lewis and Morrison & Forester signed new leases greater than 100K SF in the first quarter.

Total Leasing Activity (msf)



Source: Newmark Research, CoStar

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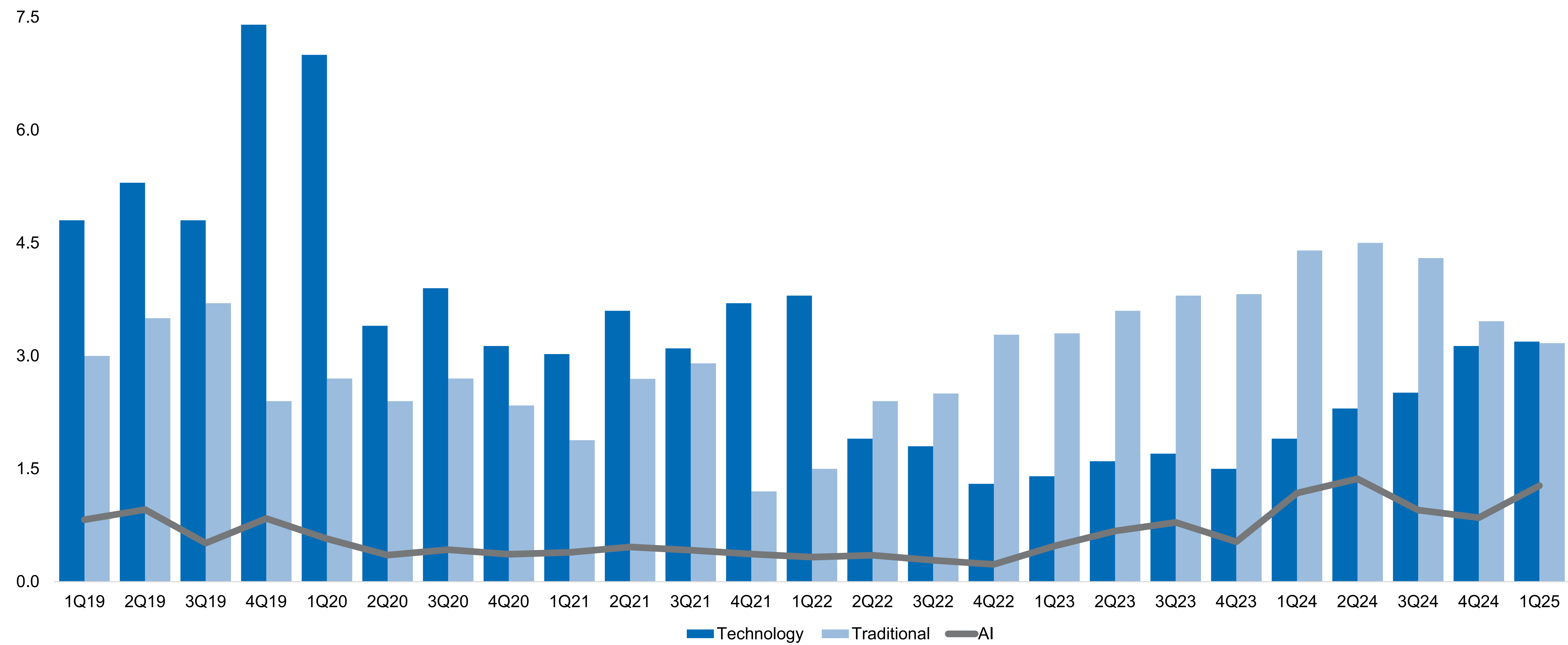
Demand from Tech Companies at Highest Level Since Early 2022

The balance of tech and traditional tenants flopped during a few years post-pandemic but now the balance is even. Traditional tenant demand is declining as tenants are transacting. Demand from technology companies has increased the past five quarters to its highest level since the first quarter of 2022 as emerging AI companies are expanding and more mature tech firms enter to the market looking to downsize.

Tenant Demand (msf)

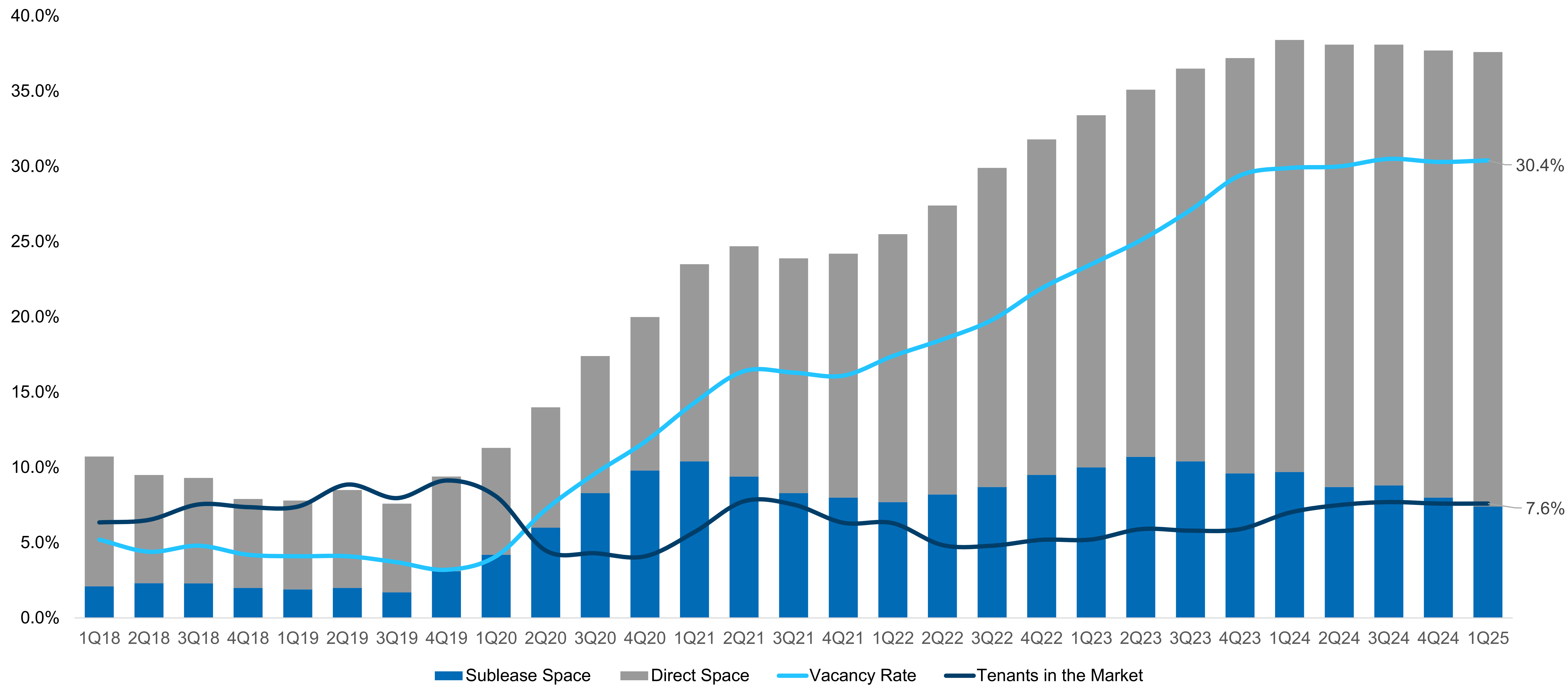


Source: Newmark Research

Sublease Space Continued to Decrease

Available sublease space has declined year-over-year from totaling 9.7% of the market to 7.4% of the market, while overall availability decreased 90 basis points to 37.6%. At the same time, vacancy has increased 50 basis points year-over-year to 30.4%, and has remained relatively stable over the last 5 quarters compared to the 100+ basis point increases from 2020 through 2023. Tenant demand was flat quarter-over-quarter, indicating continued leasing at the current pace in the coming quarters.

Available Space, Vacancy and Tenant Demand as Percent of Overall Market



Source: Newmark Research, CoStar

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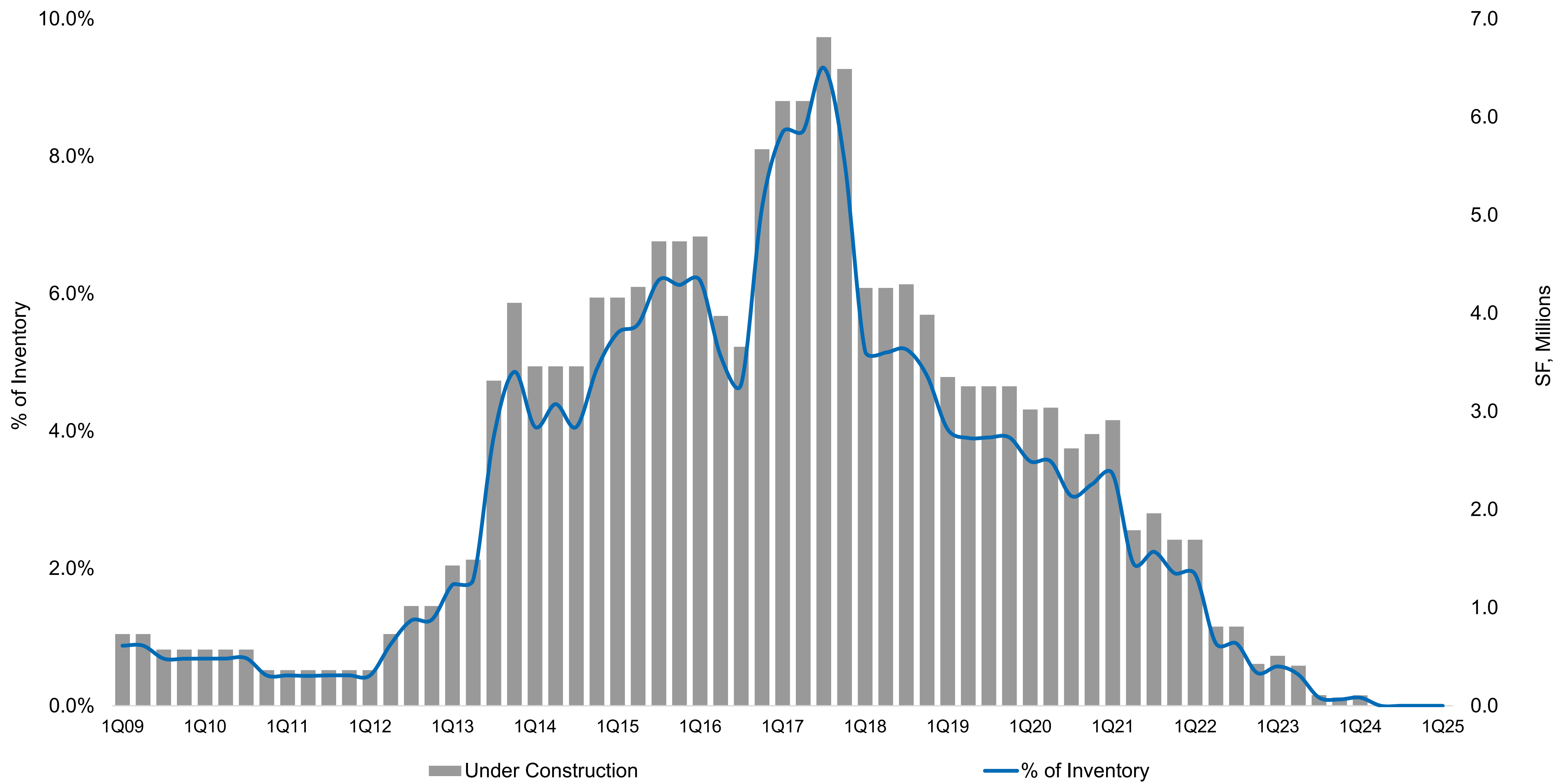
No New Office Development Under Construction in San Francisco

Rising construction costs and an uncertain economic outlook has halted new office construction completely. This marks four quarters in a row with no new development under construction. Construction on the Potrero Power Plant development is expected to start in 2025 with completion in 2028.

Office Under Construction and % of Inventory



Source: Newmark Research, CoStar, City and County of San Francisco

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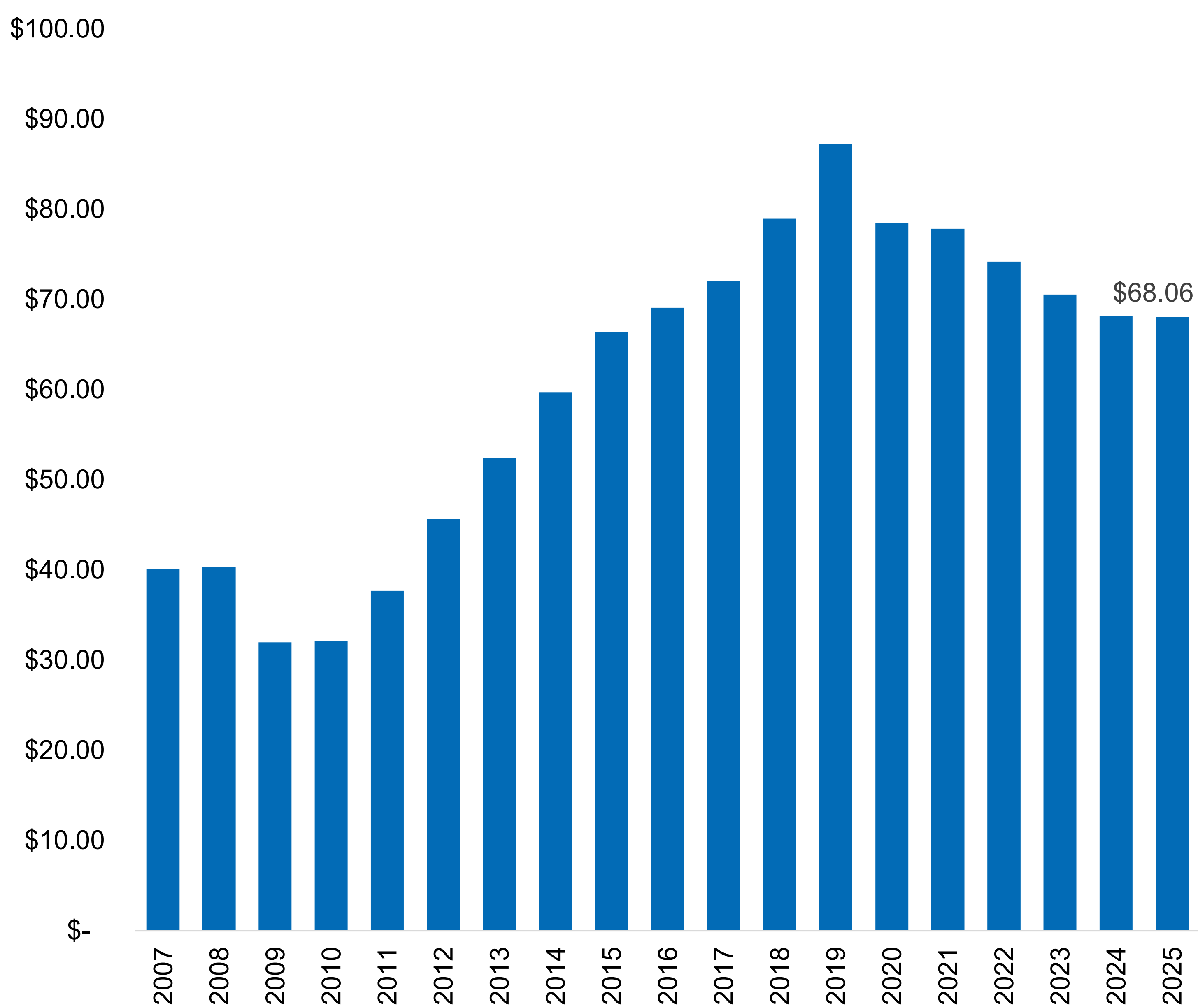
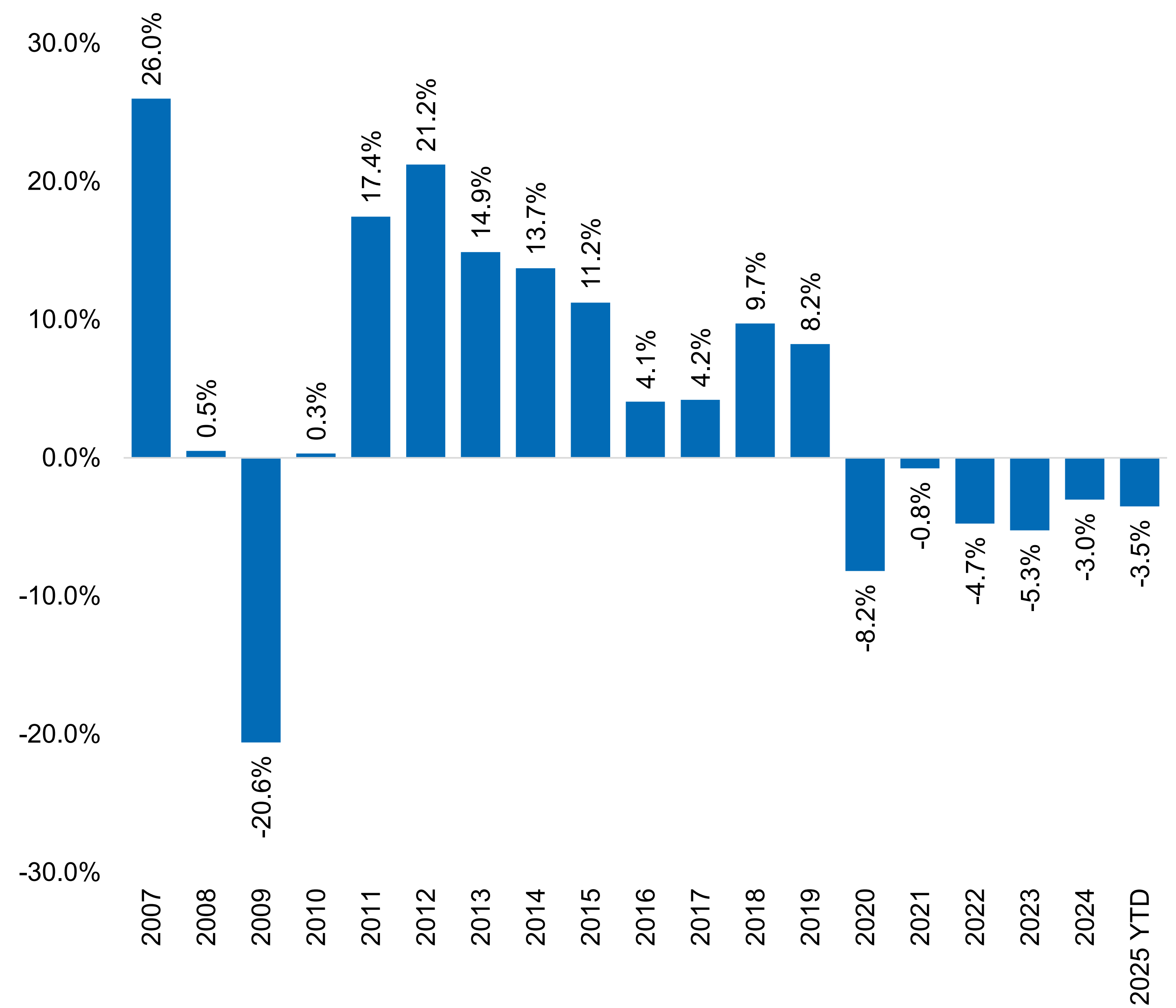
Overall Market Rents Continued to Slide

Direct asking rents have been steadily declining since 2020, dropping by a total of 22.0% since peaking in the fourth quarter of 2019. Direct asking rates declined by 2.6% year-over-year to $68.06/SF – marking the lowest average asking rate since 2015.

Office Average Asking Rent, $/SF, FS



Year-Over-Year Asking Rent Growth Rate

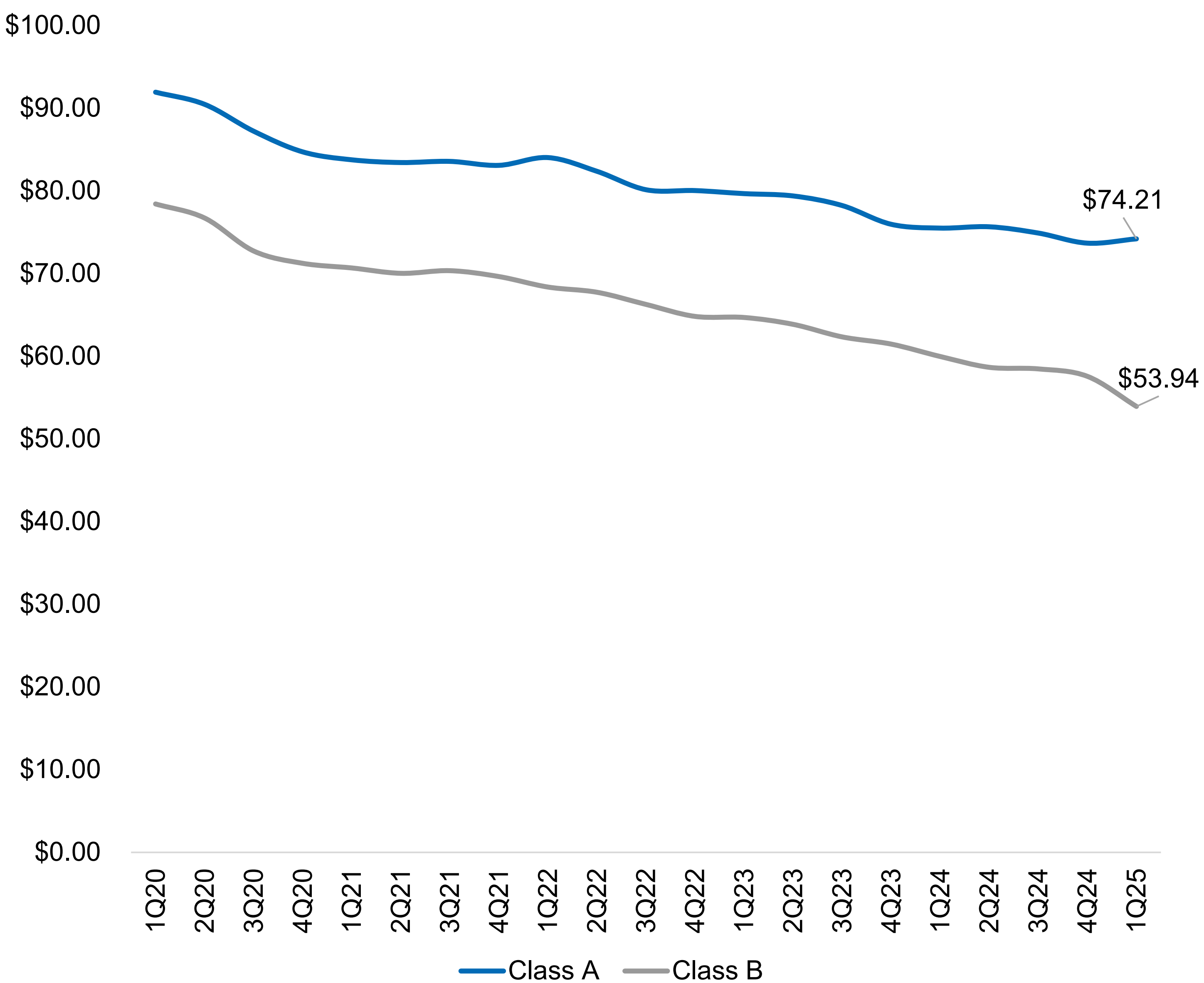


Source: Newmark Research, CoStar

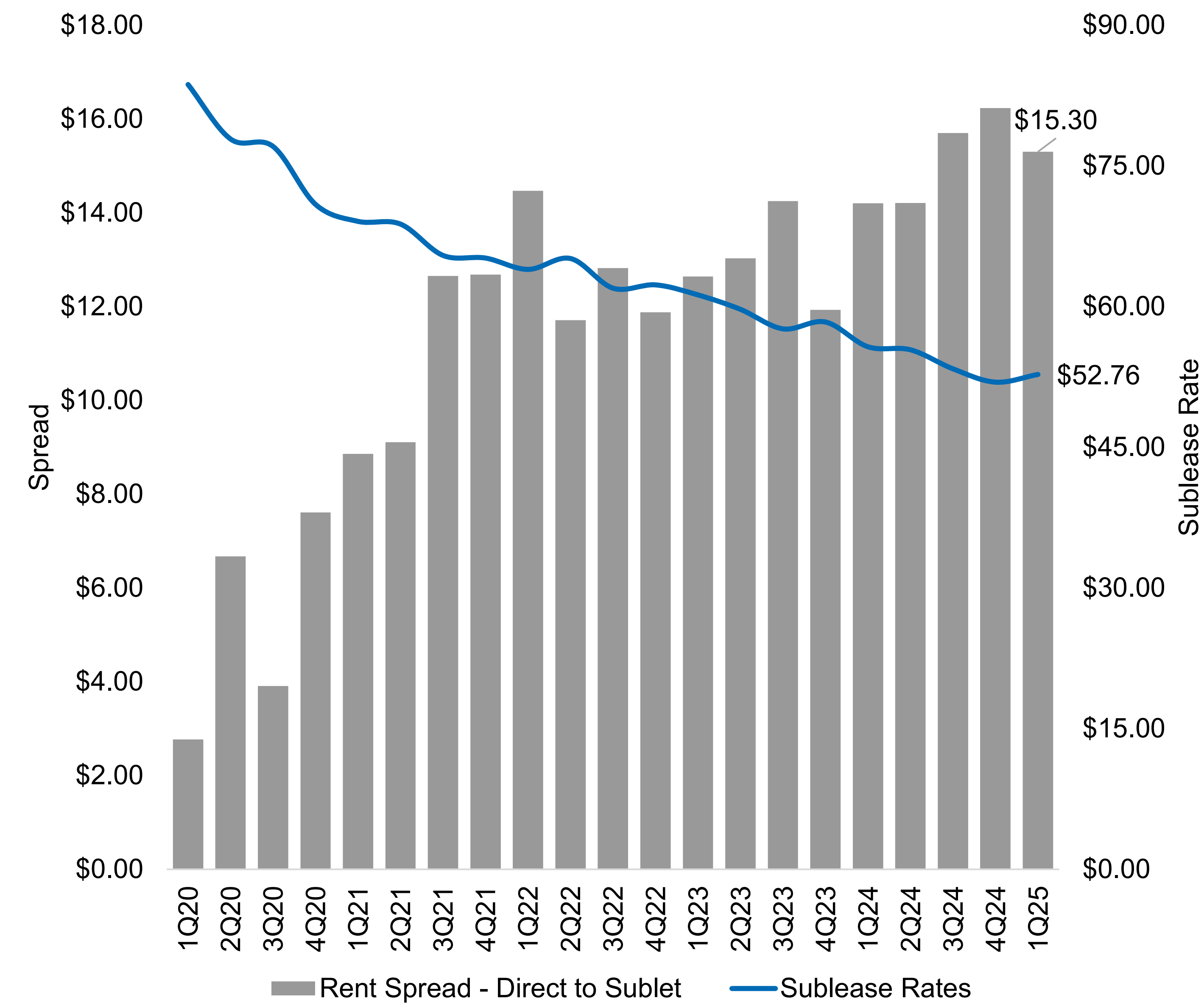
Sublease Asking Rents Stabilized in the First Quarter

Although they stabilized during the first quarter, sublease asking rents have fallen 31.9% since the end of 2019. As the San Francisco office market has gone from a very low vacancy to the current highs, the spread between direct and sublease asking rents has expanded to $15.30/SF. Since the start of 2020, Class A asking rates have declined by 19.3%, while Class B rates have declined by 31.2%.

Class A and Class B Asking Rents



Sublease Asking Rates



Source: Newmark Research, CoStar

Leasing Activity

The trends of the past two years persisted and were evident in the largest lease transactions of the first quarter. While Google signed the largest lease of the quarter, it is actually in the process of significantly decreasing its footprint and consolidating at Hill's Plaza. Meanwhile, while AI companies Sierra.AI took advantage of tenant-friendly market dynamics with an expansion.

Notable 1Q25 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Google	Hills Plaza	South Financial District	Renewal/Expansion	555,528
JP Morgan Chase	560 Mission Street	South Financial District	Renewal/Expansion	280,000
Confidential Technology Company	One Sansome Street	North Financial District	Direct Lease	150,000
Dodge & Cox	555 California Street	North Financial District	Lease Renewal	125,000
Morgan Lewis	600 Montgomery Street	North Financial District	Direct Lease	122,413
Twilio	101 Spear Street	South Financial District	Lease Renewal	83,016
Sierra AI	235 Second Street	South Financial District	Extension/Expansion	82,104
Goldman Sachs	555 California Street	North Financial District	Lease Renewal	81,643

Source: Newmark Research, CoStar

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Appendix

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Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at nmrk.com/insights.

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