



NEWMARK

# San Francisco Office Market Overview

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1Q26

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# Key Takeaways

The San Francisco office market posted historic results this quarter, with leasing activity surpassing all but one quarter on record and net absorption reaching its highest level ever recorded.

4.2 MSF leasing activity

1.5 MSF net absorption

9.7 MSF tenant demand

390 bps vacancy drop YoY

# San Francisco Market Observations



## Economy

- San Francisco's AI-driven surge is accelerating the recovery of the central business district, though ongoing tech layoffs continue to weigh on overall job growth, which is expected to rise at a slower-than-historical pace due to increasing automation. The San Francisco–San Mateo region saw a modestly faster decline in unemployment than the U.S. overall this quarter.
- The U.S. Consumer Price Index (CPI) inflation rate rose to 3.3% in March, up from 2.4% in February, driven largely by a 10.9% increase in energy costs resulting from the conflict with Iran.
- Economists maintain projections for one additional interest rate cut in 2026, noting that the Federal Reserve is expected to look beyond the recent energy-driven inflation spike linked to ongoing geopolitical tensions.



## Leasing Market Fundamentals

- First-quarter absorption of positive 1.5 million square feet marked the highest quarter of positive absorption in San Francisco since ever recorded. This was largely driven by Class A absorption in the South Financial District, which accounted for 730,000 square feet.
- Total leasing for the quarter exceeded 4.2 million square feet, the second strongest leasing quarter ever in San Francisco, behind Q2 2014. Tenant demand remains strong at 9.7 million square feet.
- Overall availability decreased by 290 basis to 30.5% quarter-over-quarter, while vacancy declined by 150 basis points to 27.9%.
- Average direct asking rents rose to \$67.77 per square foot, up 0.3% quarter over quarter.



## Major Transactions

- The largest new lease of the quarter was Anthropic's 484K square foot lease at 300 and 342 Howard. Other new leases this quarter included Together AI's 148K square foot lease at 2 Henry Adams St and Crusoe's 130K square foot lease at 225 Bush St.
- The largest renewal signed in Q1 was LinkedIn, renewing on the 9-15<sup>th</sup> floors at 222 2<sup>nd</sup> St.
- Open AI took the largest sublease for the quarter, subleasing 282K square feet from Dropbox at 1800 Owens.
- The Transamerica Pyramid Center traded for \$600 million (\$1,170 per square foot), acquired by Cyprus-based Yoda PLC in its first U.S. purchase.



## Outlook

- Artificial intelligence and technology companies represent just over half of current demand, and traditional tenant demand is at its highest level since 2013 at 4.6 million square feet.
- Premium options in the CBD are becoming increasingly scarce, with full-floor spaces in particular growing more sought after and limited in availability. As a result, tenants are beginning to consider alternative options in SOMA and other submarkets.
- Competition for sought-after availabilities is increasing landlord leverage, with owners pushing for longer lease terms and stronger economics. As demand grows and availability decreases, it is expected that landlords with spec suites will have more negotiating power throughout 2026.

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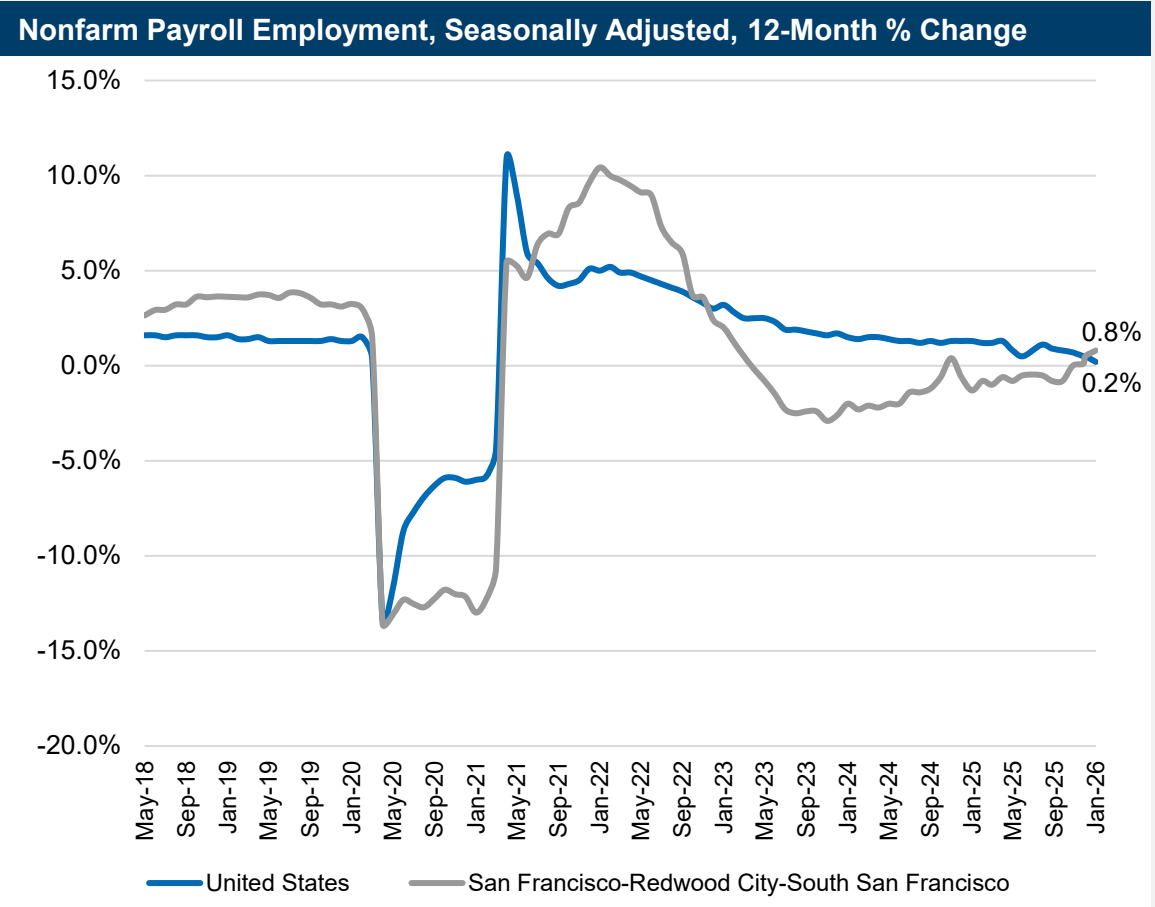
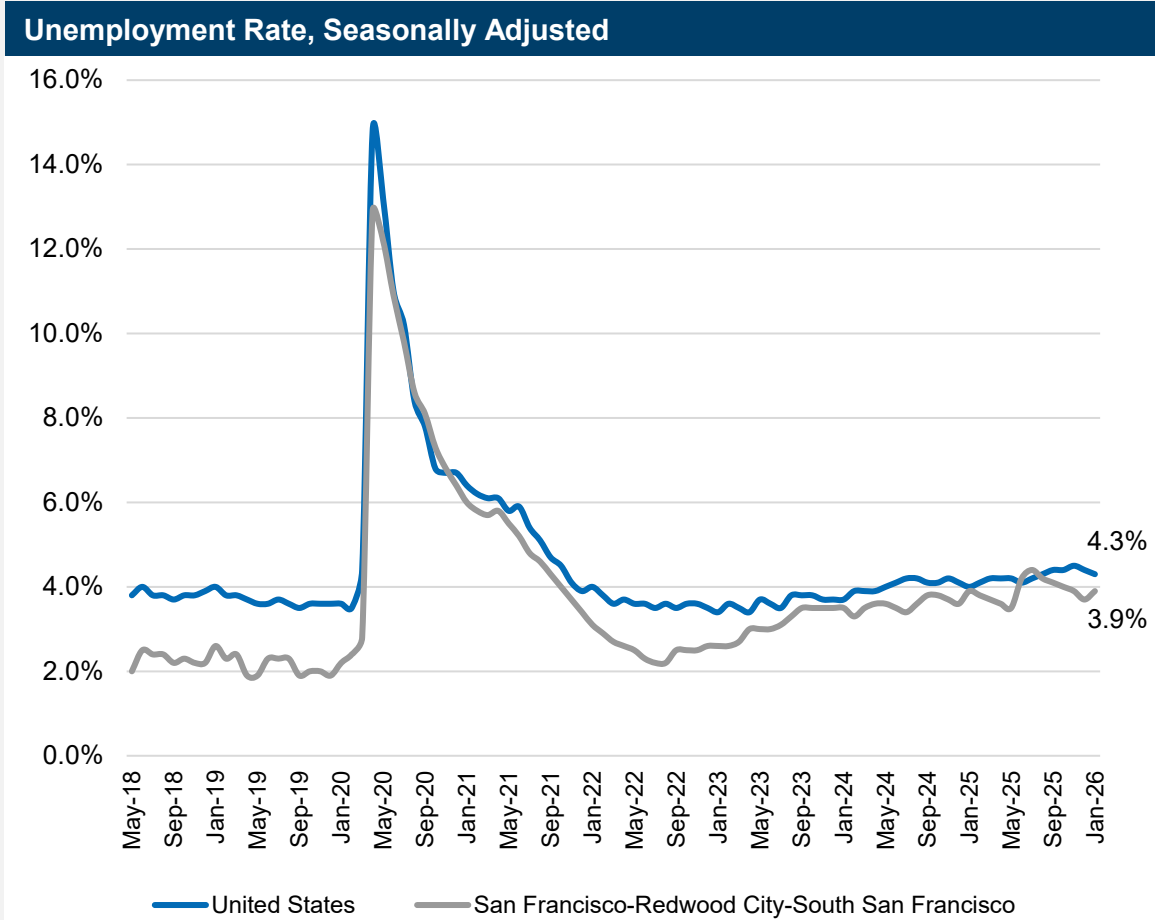
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## Economy



# Regional Unemployment Remains Below National Average

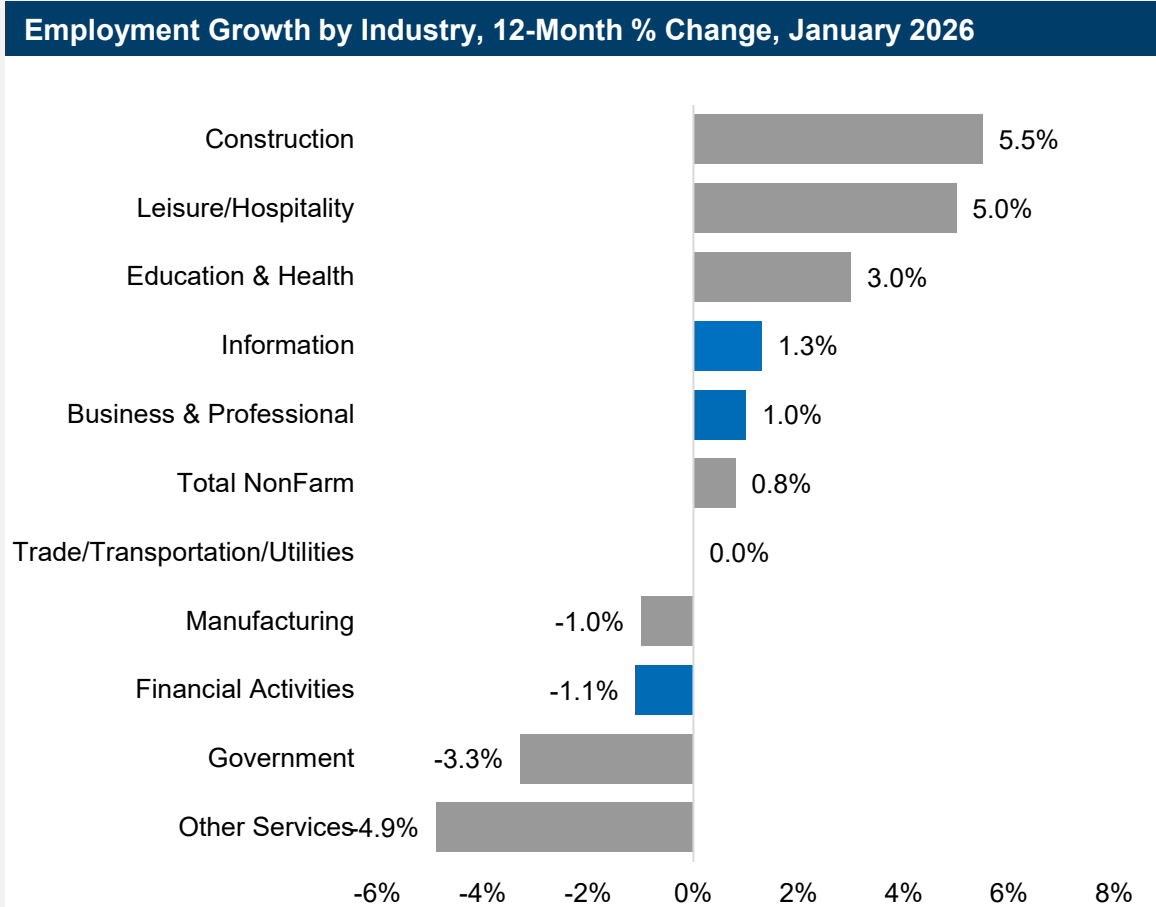
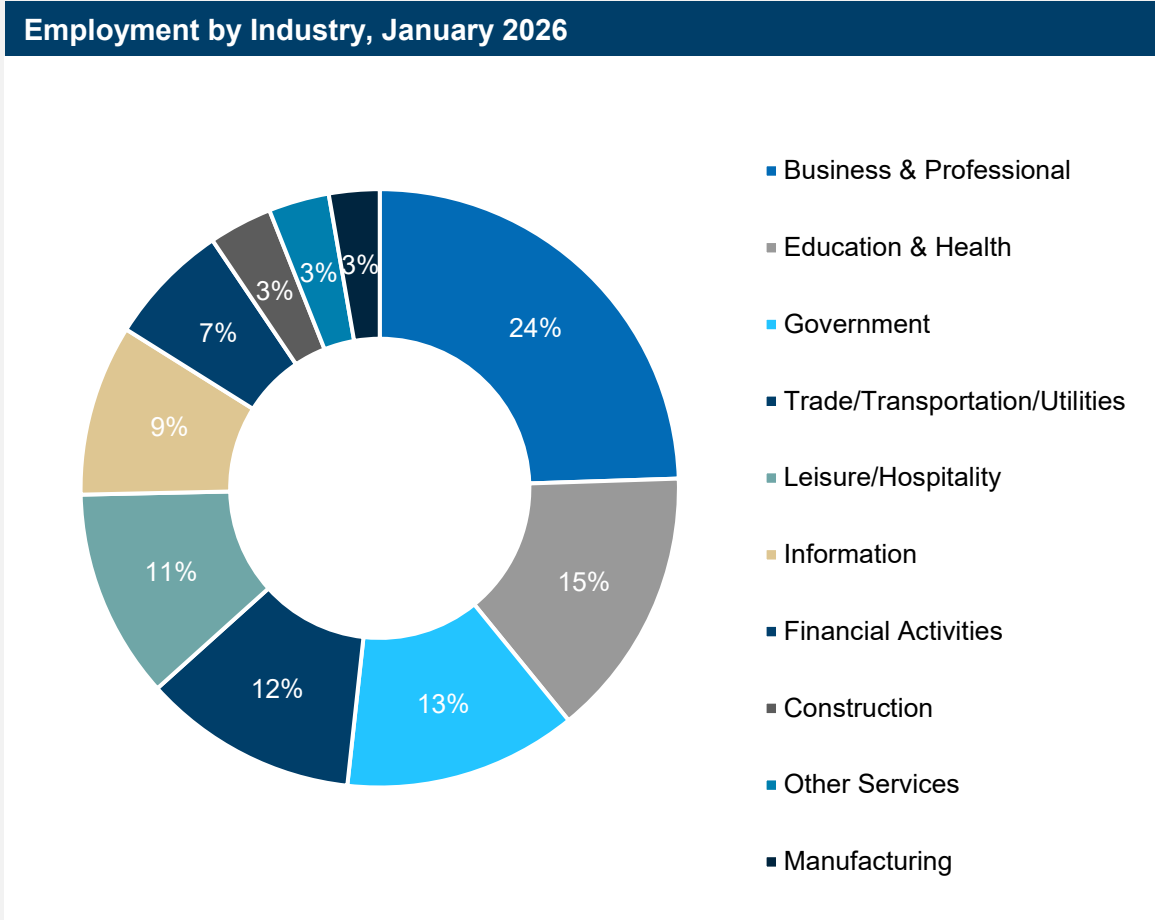
The region's unemployment rate declined by 20 basis points between September 2025 and January 2026, while the U.S. rate decreased by 10 basis points during the same period. In January, the region's unemployment rate was 150 basis points below the California average, which stood at 5.4%.



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

# Office-Using Employment Posts Modest Year-Over-Year Gains

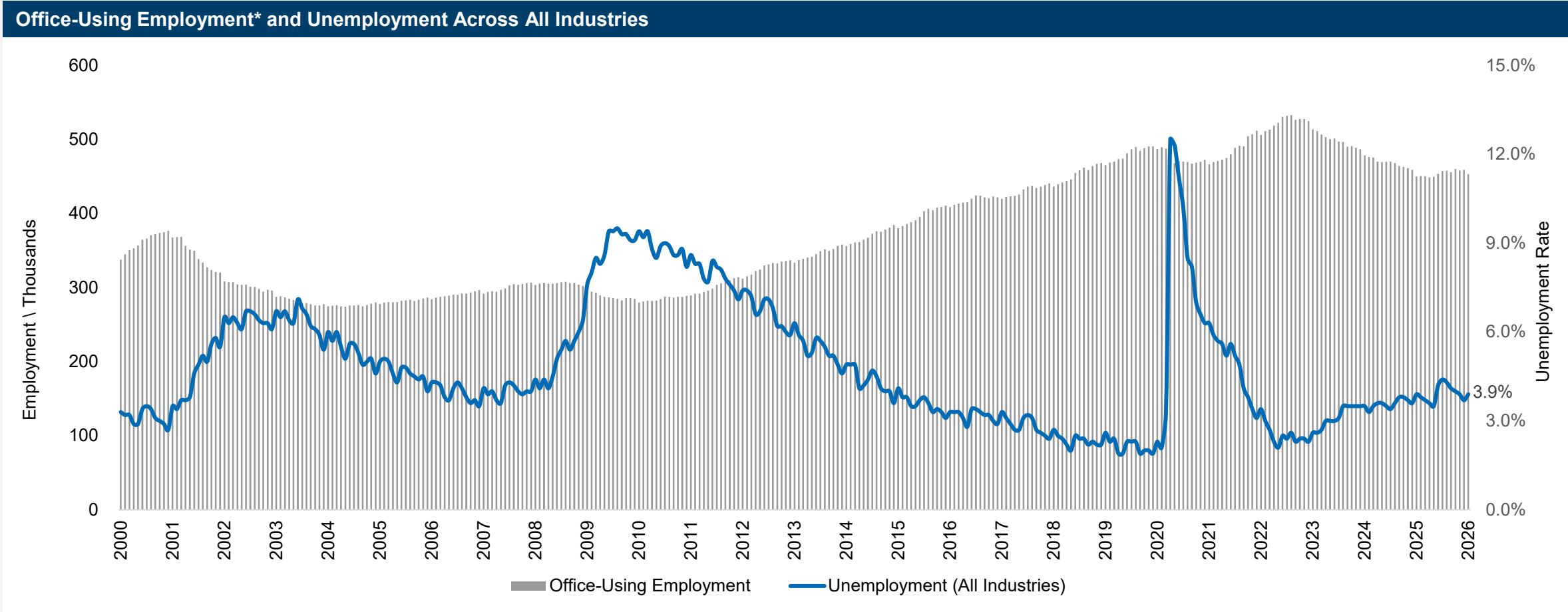
While office-using employment was positive on a year-over-year basis, it declined quarter-over-quarter. Leasing activity from tech and AI firms has helped reinvigorate demand, which should support further gains over time. Office-using employment is poised to grow, but automation is expected to temper the pace below long-run historical trends.



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

# Dip in Office-Using Employment Quarter over Quarter Amid Tech Sector Adjustments

Office-using employment continued its decline into 1Q26, extending a contraction that began after the early 2023 peak. Tech-sector cost-cutting and restructuring have been the primary drivers. Still, early signs suggest the market may be nearing a turning point: improving macroeconomic conditions and steady hiring in high-growth sectors such as artificial intelligence and clean energy point to potential stabilization in the quarters ahead.



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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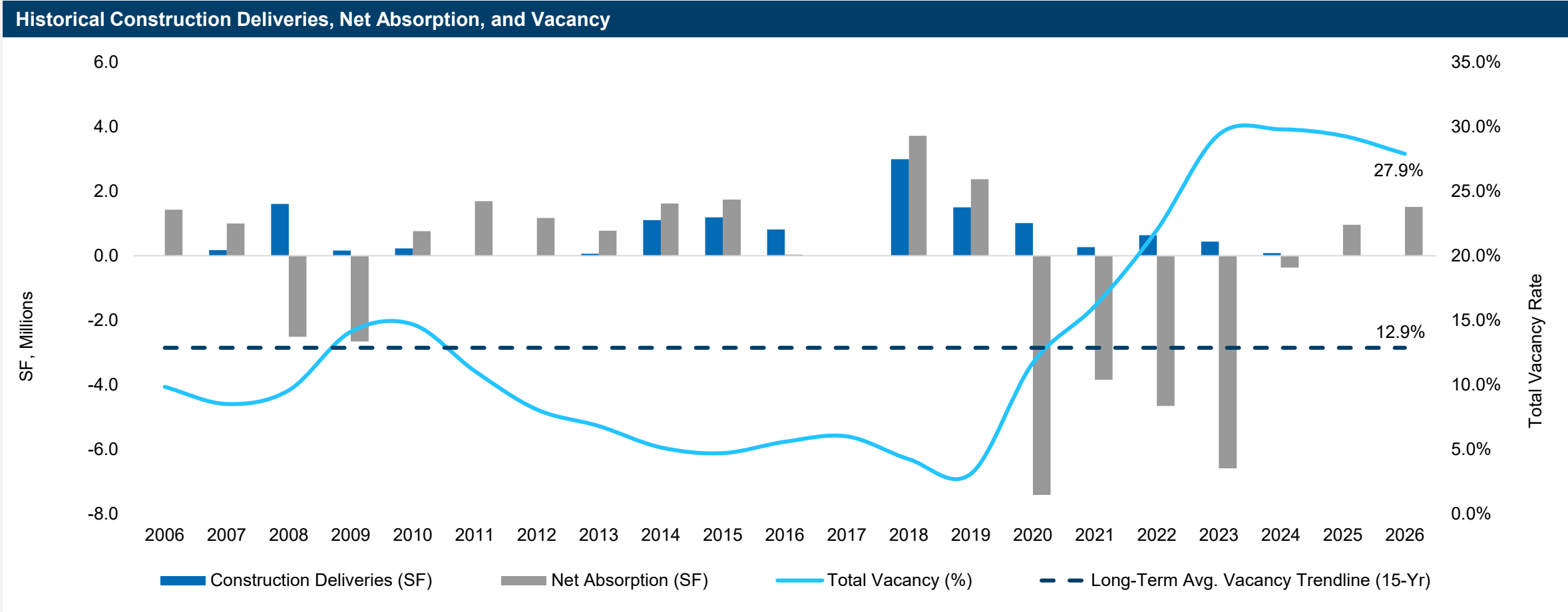
## Leasing Market Fundamentals

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1Q26

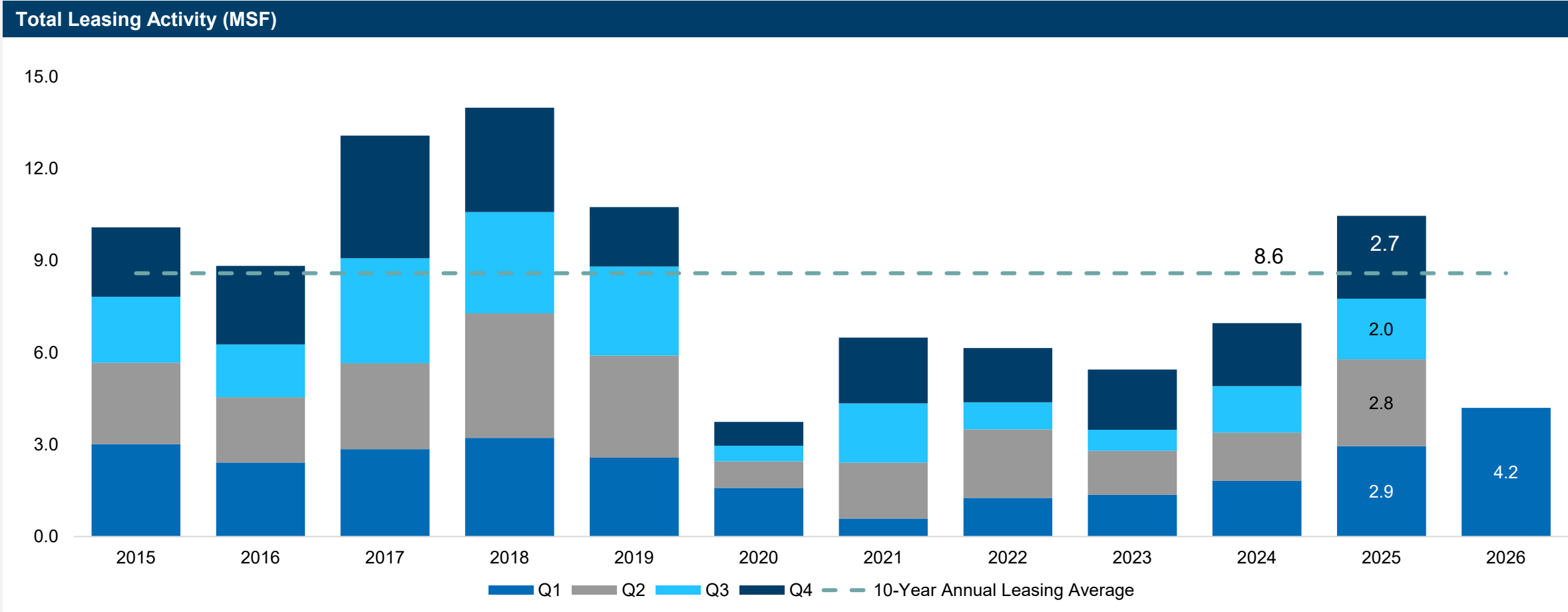
# Noticeable Decrease in Vacancy

Historic leasing pace in the first quarter 2026 led to quarterly absorption of 1.5 million square feet, exceeding absorption for all of 2025. Class A absorption reached just under 1.0 million square feet, and there was nearly 500,000 square feet of Class B absorption. AI/Technology tenant demand has shifted toward high amenity, well-located, collaborative office settings. Overall vacancy dropped 190 basis points quarter-over-quarter and 390 basis points year-over-year.



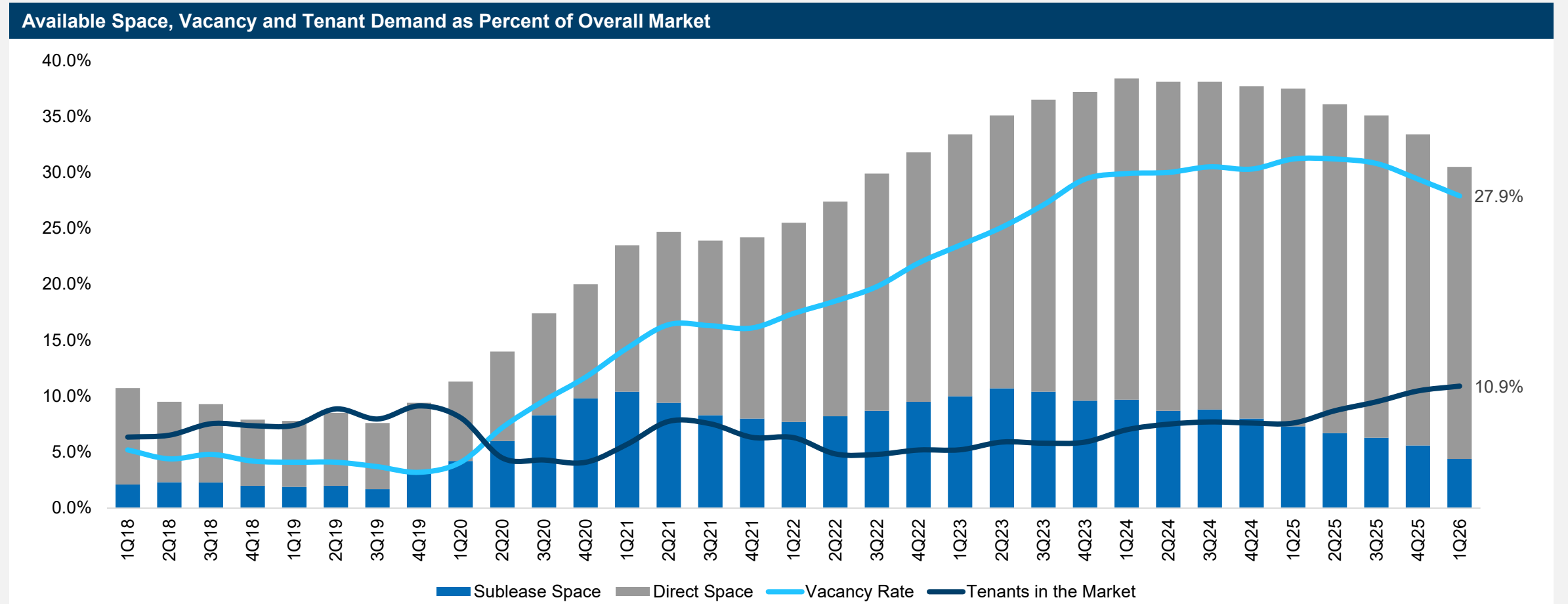
# Historic Leasing Activity

First-quarter leasing surged to a historic 4.2 MSF, marking the second-strongest quarterly performance in the past 30 years. Activity was driven by a wave of major tenant commitments, including Anthropic, which signed new leases totaling 586K square feet across two buildings, and Atlassian, which expanded its footprint to 145K square feet. In the quarter's largest sublease transaction, OpenAI secured 282K square feet from Dropbox, underscoring continued momentum among leading technology and AI firms.



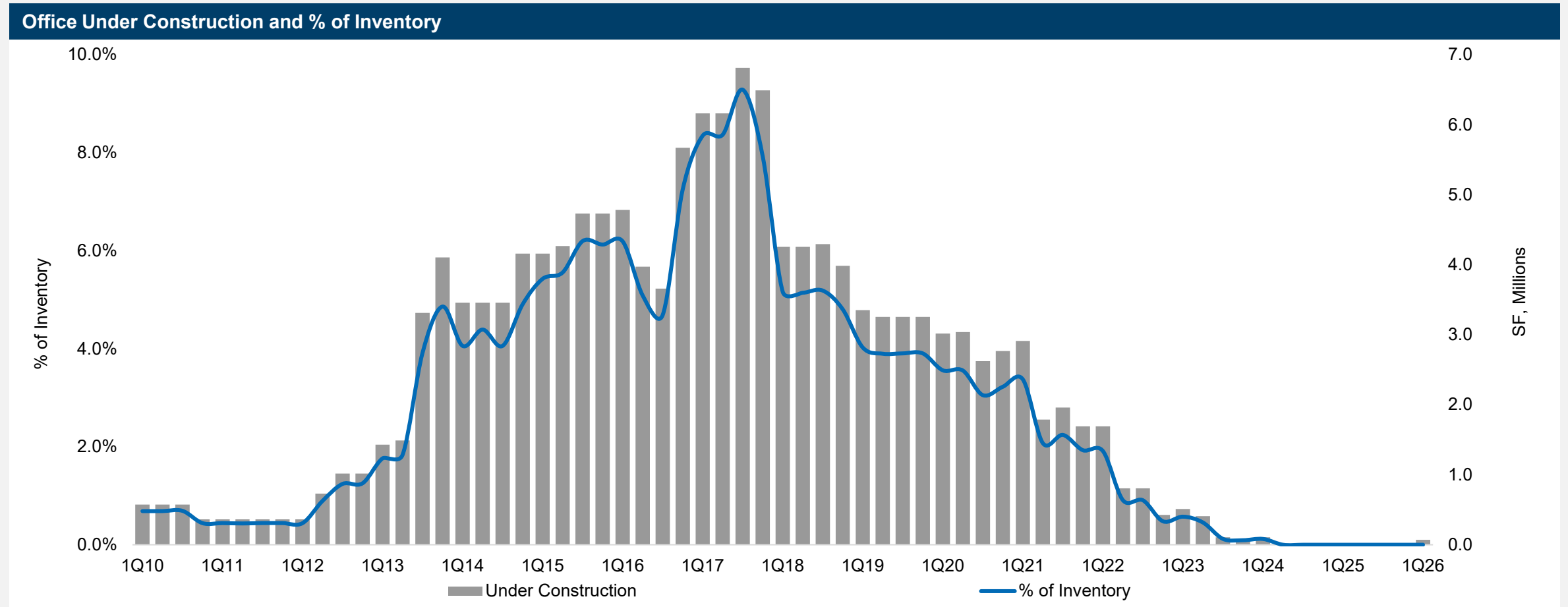
# Vacancy Line Trended Downwards

After holding relatively steady for several quarters, vacancy has finally begun falling, while tenant demand continued to trend upwards. Available sublease space has declined to 4.4%, compared to 7.4% of the market last year and 10.8% of the market at its peak mid-2023. Overall availability still hovers over the 30%-mark, but it has dropped 690 basis points over the past year, and 820 basis-points from its peak level in 2024.



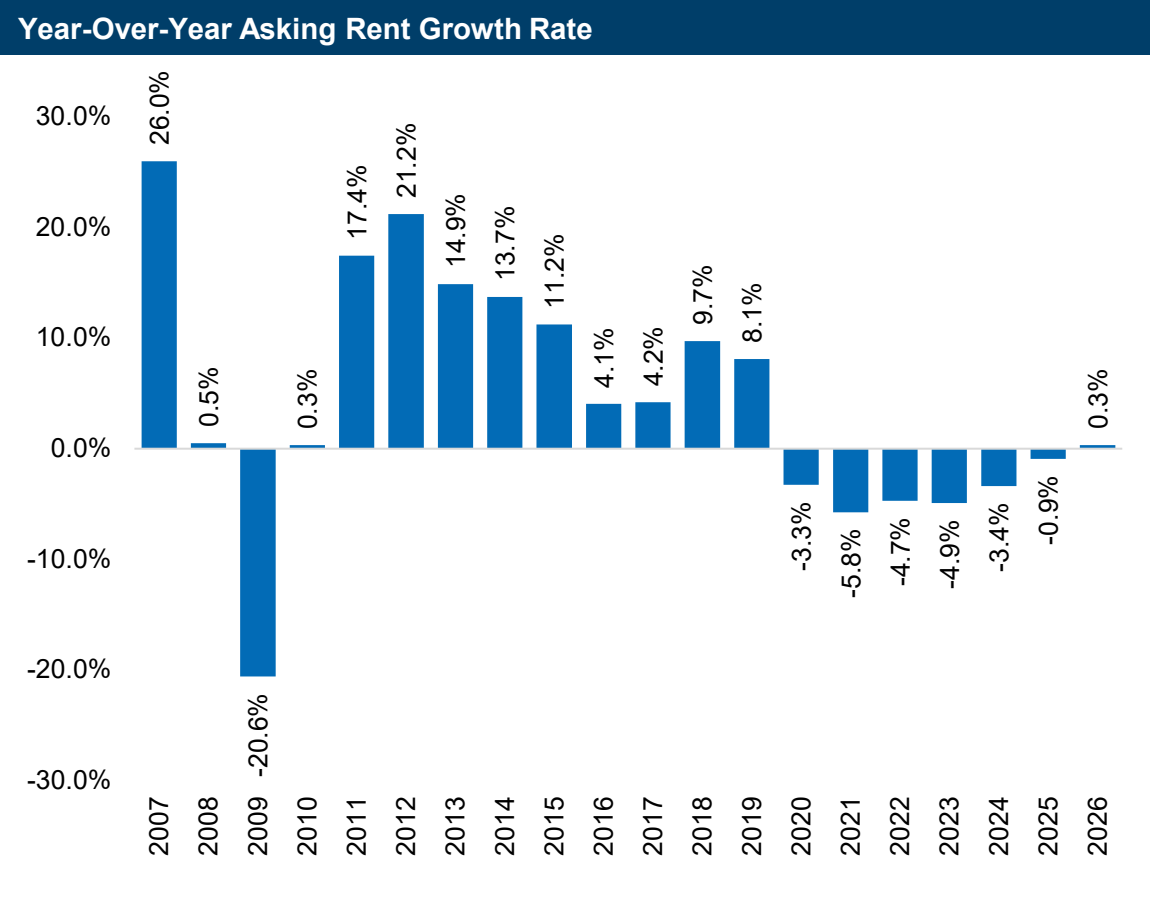
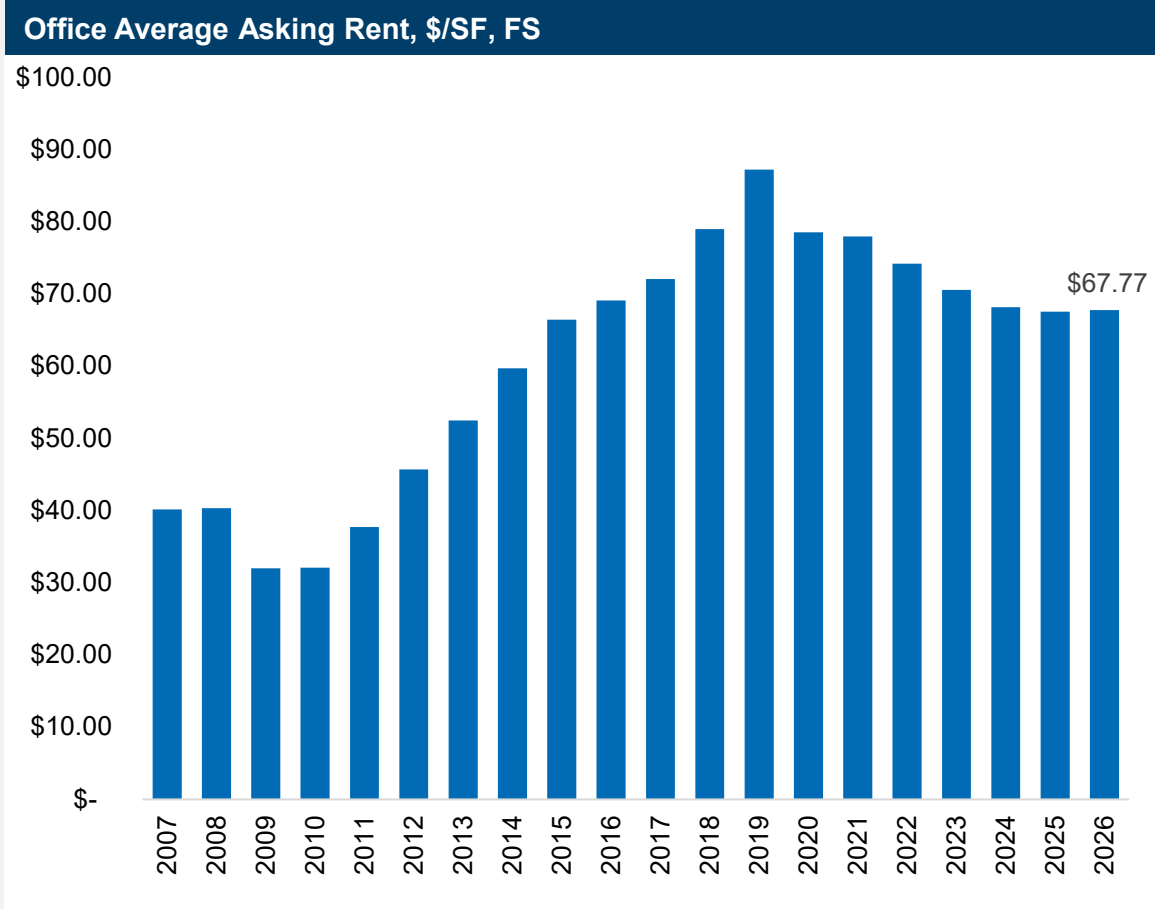
# Very Little Office Development Under Construction in San Francisco

Rising construction costs and an uncertain economic outlook had halted new office construction for several years, but pre-leasing at Pier 70 triggered construction activity in the first quarter. Excavation on the Potrero Power Station Block 2 is underway, with completion expected to be after 2030.



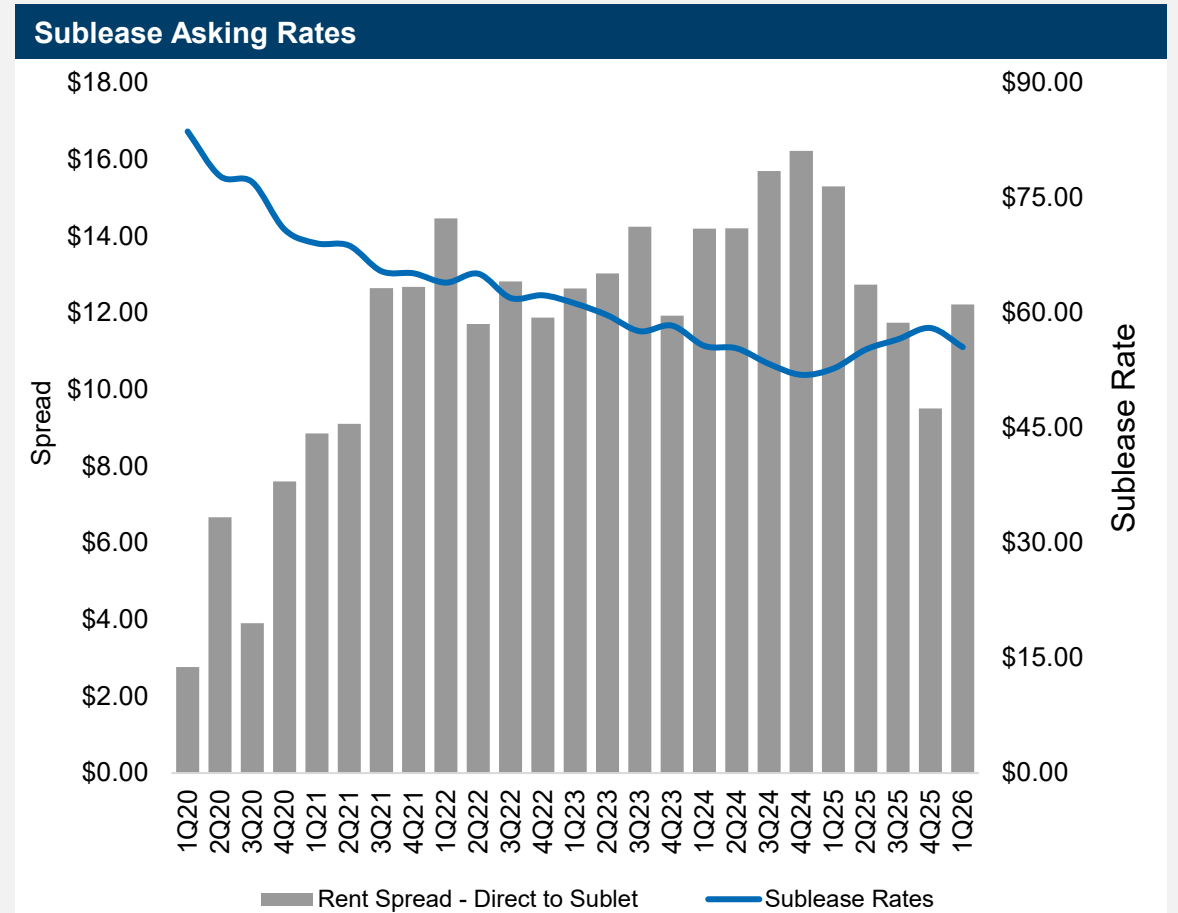
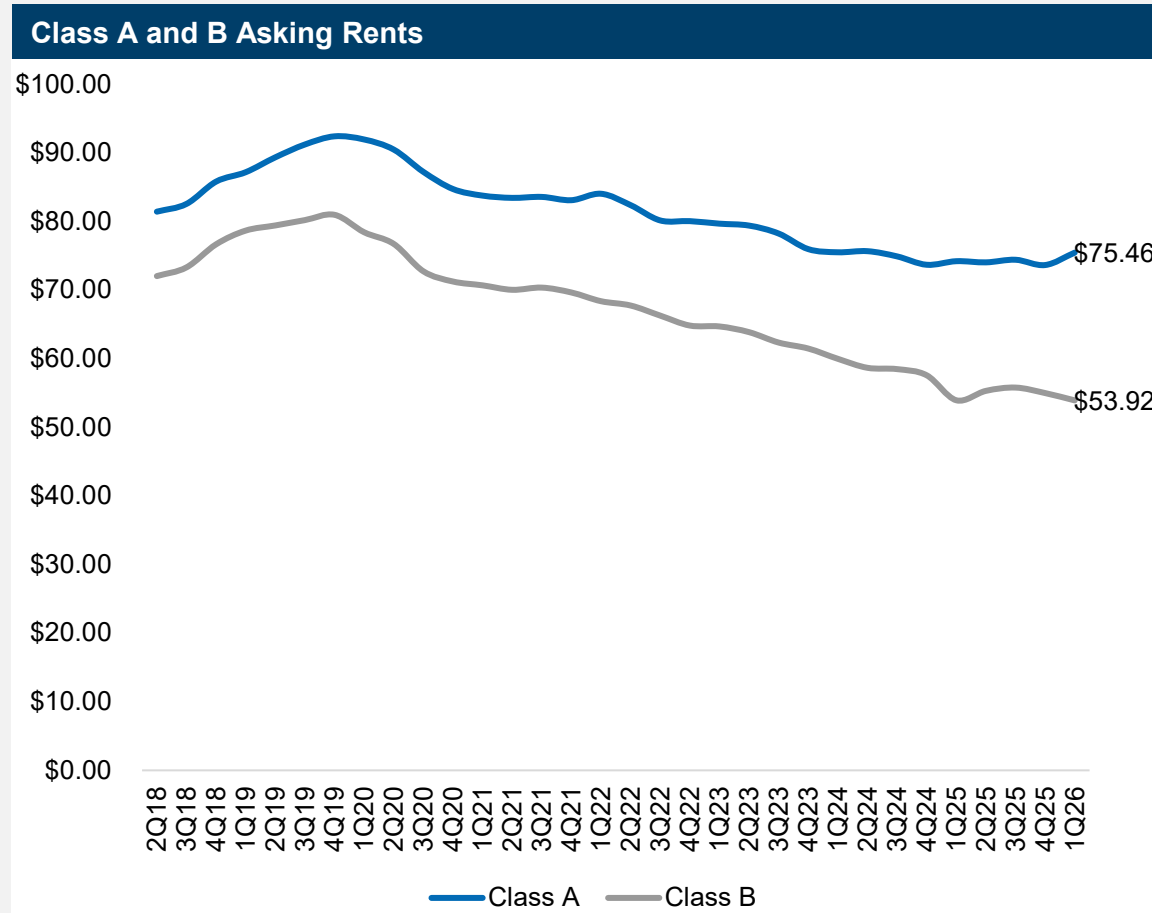
# Decreases in Overall Market Rents Slowed

After falling about 22% during the first few years of the pandemic, direct asking rents have tapered off and have hovered around \$68 per square foot for the past six quarters. Class A rates have been hovering around \$75 per square foot for the last six quarters, falling about 19% from their peak at the end of 2019.



# Sublease Asking Rents Continued to Stabilize

As sublease availability has slowly fallen over the past several quarters, sublease rents have trended upwards, although that trend paused in the first quarter as sublease rates ticked down modestly. Tenants are still looking to find bargains in a tighter market, and as more sublease space is leased, we can expect the rates to fluctuate – rising as sublandlords push higher rates and falling as the best options in that market are leased. Direct Class A asking rates declined by 18.3% and Class B rates declined by 33.4% since the height of the market, although Class A rents appear to be leveling.



# Large Block Leasing in Q1

There were eight office leases over 100K square feet in the first quarter of 2026, totaling 1.6 million square feet. This is the largest quarter of large block leasing in San Francisco since the pandemic.

## Notable 1Q26 Lease Transactions

Tenant	Address	Submarket	Type	Square Feet
<b>Anthropic</b>	<b>300 Howard Street 342 Howard Street</b>	<b>Financial District South</b>	<b>Direct</b>	<b>484,000</b>
<i>Anthropic signed a 13-year lease for the entirety of 300 Howard, as well as the historic 342 Howard. It is expected that Anthropic's footprint will keep expanding.</i>				
<b>OpenAI</b>	<b>1800 Owens Street</b>	<b>SOMA – Mission Bay</b>	<b>Sublease</b>	<b>282,000</b>
<i>OpenAI expanded and took the former Dropbox space. Open AI now leases more than 1 million square feet of office space in the city.</i>				
<b>Together AI</b>	<b>2 Henry Adams</b>	<b>SOMA – Showplace/Potrero</b>	<b>Direct</b>	<b>148,826</b>
<i>Together AI leased the top two floors at 2 Henry Adams, expanding from its footprint of 30,000 square feet.</i>				
<b>LinkedIn</b>	<b>222 2<sup>nd</sup> Street</b>	<b>Financial District South</b>	<b>Renewal</b>	<b>148,664</b>
<i>LinkedIn renewed the 9<sup>th</sup>-15<sup>th</sup> floors, which were set to expire.</i>				
<b>Atlassian</b>	<b>350 Bush Street</b>	<b>Financial District North</b>	<b>Renewal</b>	<b>145,215</b>
<i>Atlassian renewed its 145K square foot lease on floors 10-16.</i>				
<b>Crusoe</b>	<b>225 Bush Street</b>	<b>Financial District North</b>	<b>Direct</b>	<b>130,234</b>
<i>Crusoe expanded its footprint by 80K square feet.</i>				
<b>Charles Schwab</b>	<b>425 Market Street</b>	<b>Financial District South</b>	<b>Direct</b>	<b>115,042</b>
<i>Charles Schwab downsized and relocated from its long-time location at 221 Main Street.</i>				
<b>Anthropic</b>	<b>400 Howard Street</b>	<b>Financial District South</b>	<b>Direct</b>	<b>101,969</b>
<i>Anthropic leased another 102K square feet at Foundry Square, further bolstering their footprint at their future headquarters.</i>				

# Large Block Leasing continued

Notable 1Q26 Lease Transactions				
Tenant	Address	Submarket	Type	Square Feet
<b>Carta</b> <i>Extended on floors 19-20, and 22-24.</i>	333 Bush Street	Financial District North	Extension	83,245
<b>Perplexity AI</b> <i>Perplexity AI subleased floors 9-12 from Meta at 181 Fremont.</i>	181 Fremont	Financial District South	Sublease	80,561
<b>General Catalyst</b> <i>General Catalyst leased the entire third floor of Building 12 at Pier 70.</i>	Pier 70	SOMA – East	Direct	70,000
<b>Decagon AI</b> <i>Decagon AI leased the 6<sup>th</sup> and 7<sup>th</sup> floors.</i>	680 Folsom Street	Financial District South	Direct	69,358

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## Appendix



# Access the Extended 1Q26 San Francisco Office Report

The extended version of this report includes:

- **Data on leasing trends**
  - Deal count and average lease size
  - Leasing by submarket
- **Further insight into tenant demand**
- **Availability and rent data by submarket**
- **Market statistics for the overall market and Class A**
- **Insights into trophy space**
- **Submarket level stats**

To access, please reach out to your Newmark contact.

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