

2Q25

# San Francisco Office Market Overview

NEWMARK

# Market Observations

## Economy

- Unemployment has been hovering just below 4.0% for several months. Year-over-year changes employment in the region have remained steadily in the negative over the last 2 years, and regionally the area has about 9,300 fewer total jobs than one year ago.
- All three of the office-using industries shrank in size over the last year, with a combined contraction of 2.1%, although the largest drop was in the information sector. Office-using employment dropped by over 12,000 jobs since the end of 2024.
- The overall unemployment rate of 3.9% remains below the national rate of 4.2%, but there has been an 12.7% decrease in office-using employment since the height of hiring in 2022.

## Major Transactions

- The largest new lease of the quarter was Coinbase's 151K SF lease at 1090 Maya Angelou Ln in Mission Bay. Other new leases this quarter included Morrison Foerster's 112K SF lease at 101 California St and Harvey AI's 93K SF lease at 201 Third St.
- Several large renewals were signed this quarter, including LinkedIn for 150K sf at 222 Second St and UCSF for 147K sf at 499 Illinois St. Subleases in the second quarter include Glean at 634 Second St for 30K sf and Alembic at 123 Townsend for 23K sf.
- The largest sale by square footage during the quarter was Flynn Properties and DRA Advisors' joint acquisition of Market Center (555 and 575 Market St) from Paramount Group for \$177.0M or \$221/SF. The building last traded in 2019 for \$902/SF.

## Leasing Market Fundamentals

- Net absorption for the first half of 2025 was just under negative 431K square feet. Second quarter absorption of negative 234K square feet was driven by large move-outs from Google, Cruise and Airbnb, which combined vacated nearly 596K square feet.
- Overall availability decreased by 120 basis points in the second quarter to 36.1%. Vacancy increased 10 basis points to 30.5%.
- Average direct asking rents, now at \$67.98/SF, continued their shallow decline quarter-over-quarter.
- Total leasing for each of the first two quarters totaled over 2.6 MSF, marking two quarters in a row with leasing reaching levels not seen since 2019.
- Demand is at its highest level since 1Q2020 at 7.9MSF.

## 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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2. Leasing Market Fundamentals
3. Appendix / Tables



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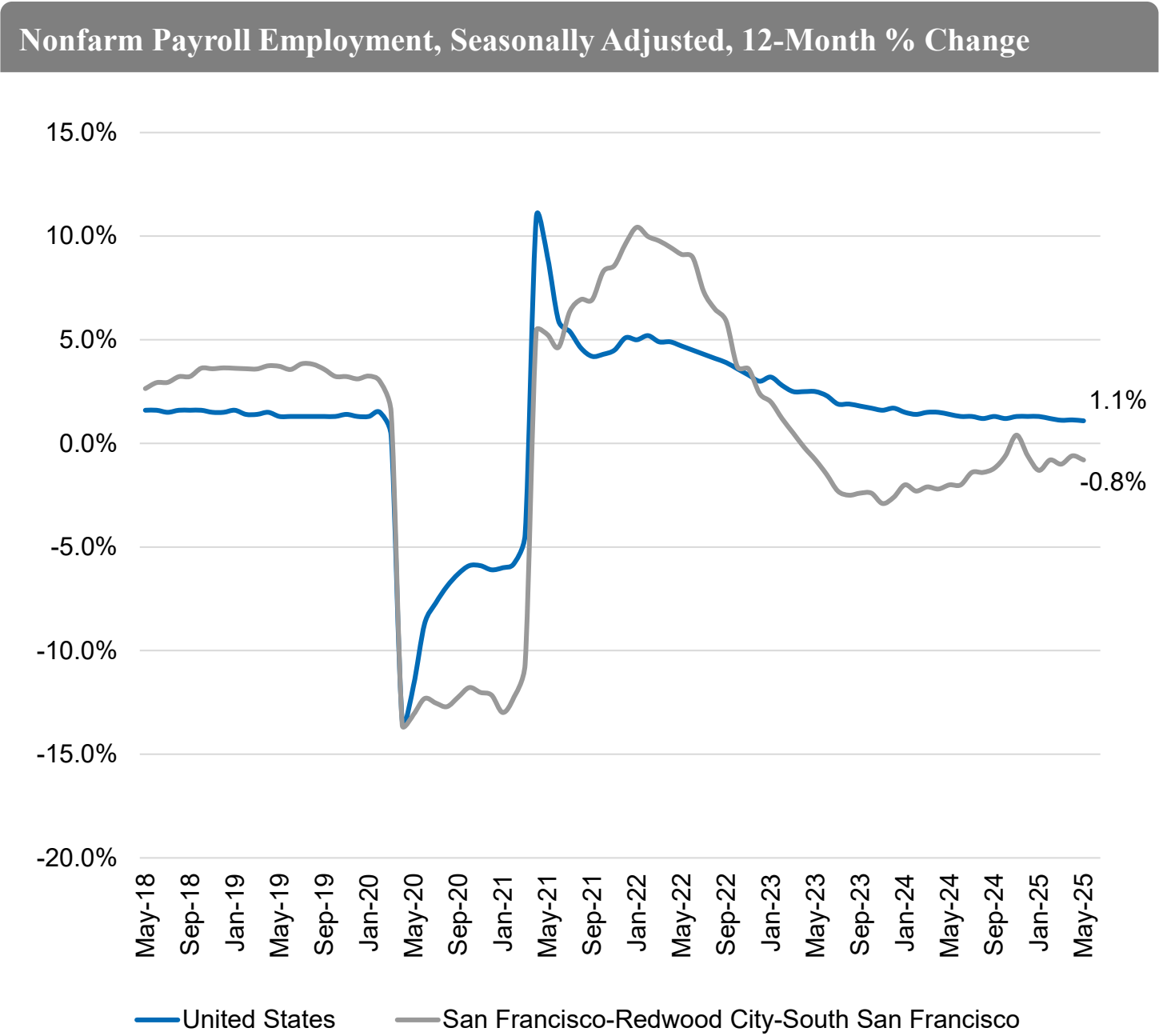
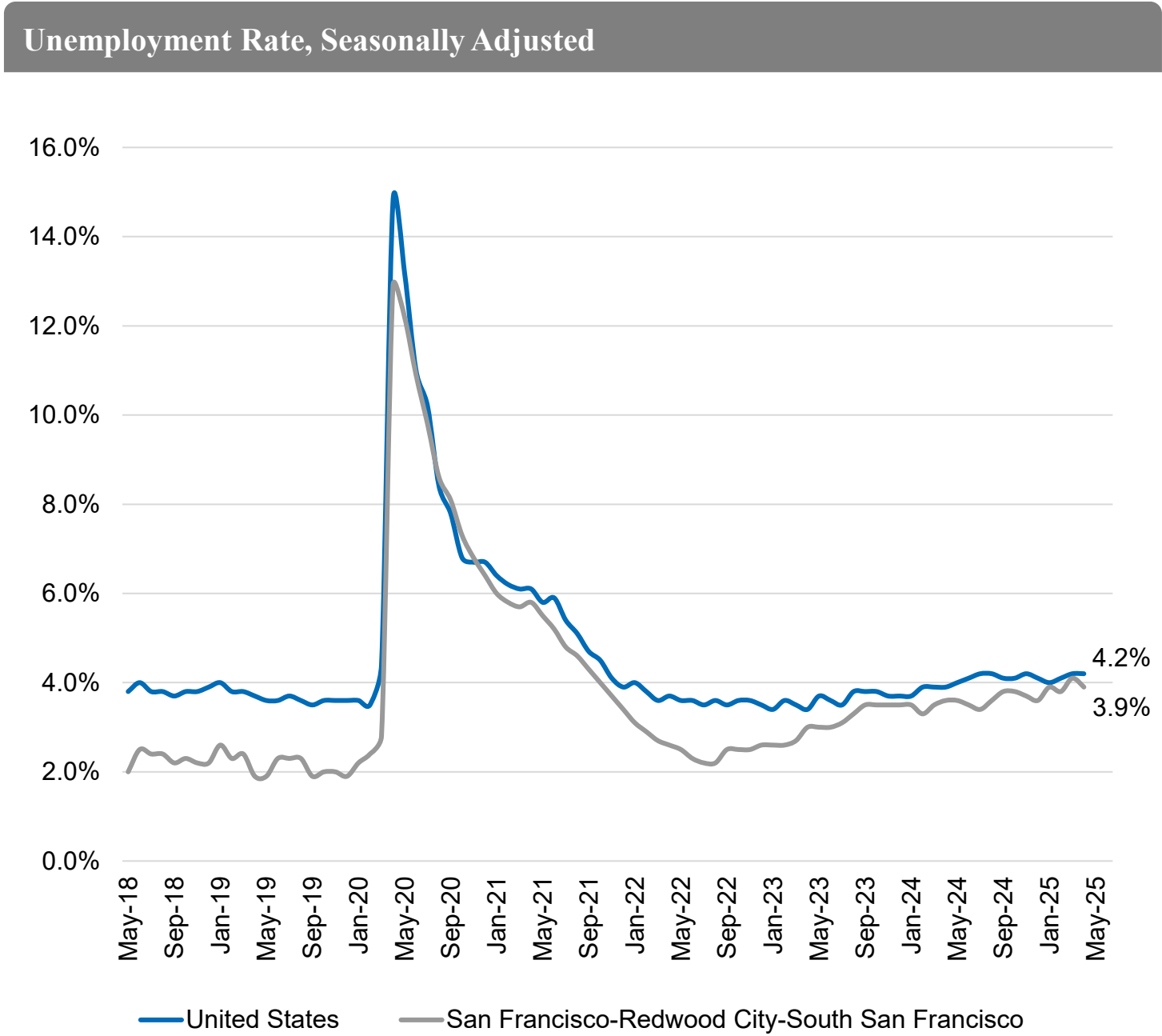
# Economy





# Regional Unemployment Remains Below National Level

While remaining 30 basis points below the national average, the regional unemployment rate has been hovering just under 4.0% for several months. Year-over-year changes in nonfarm employment in the region have remained fairly steady in the negative over the last 2 years.

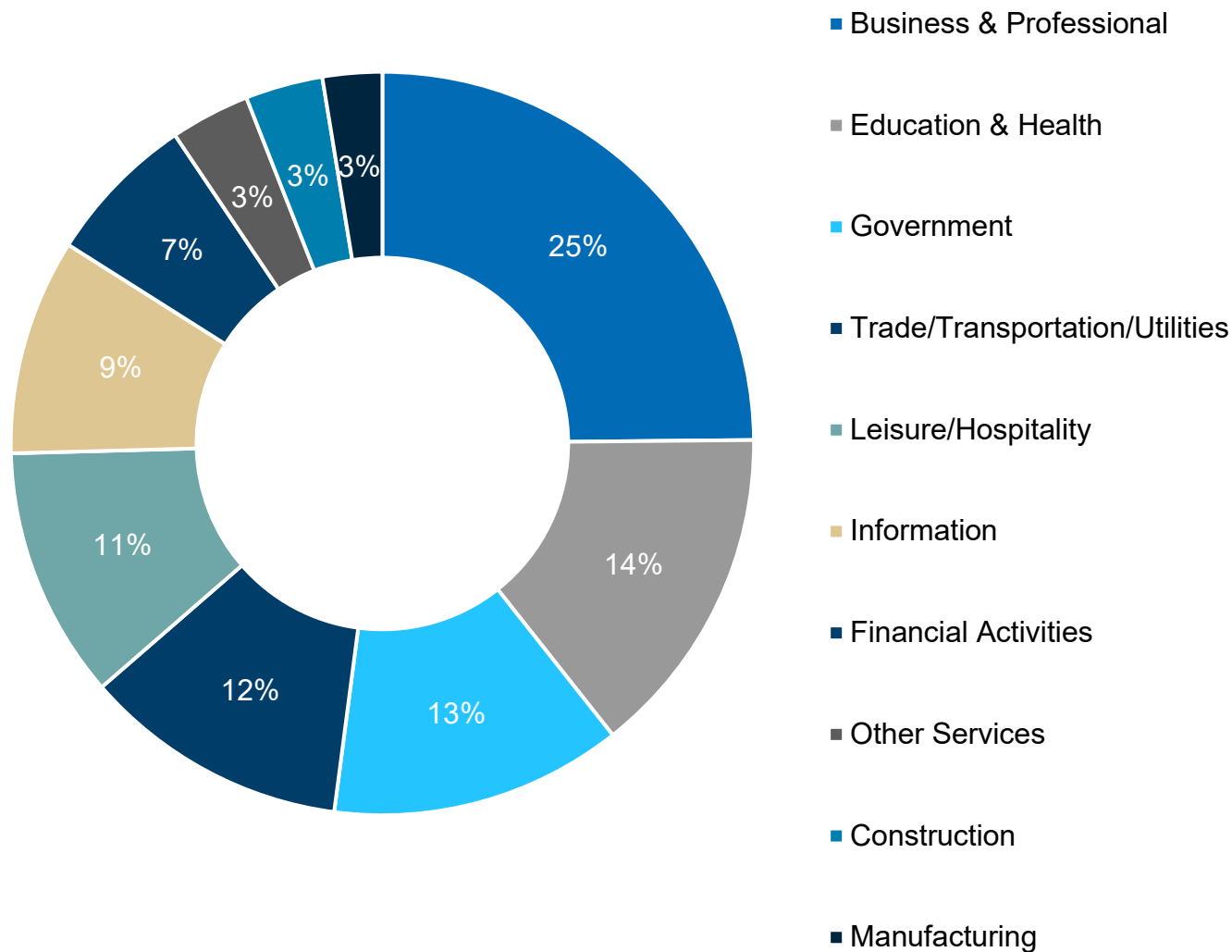


Source: U.S. Bureau of Labor Statistics, San Francisco-Redwood City-South San Francisco

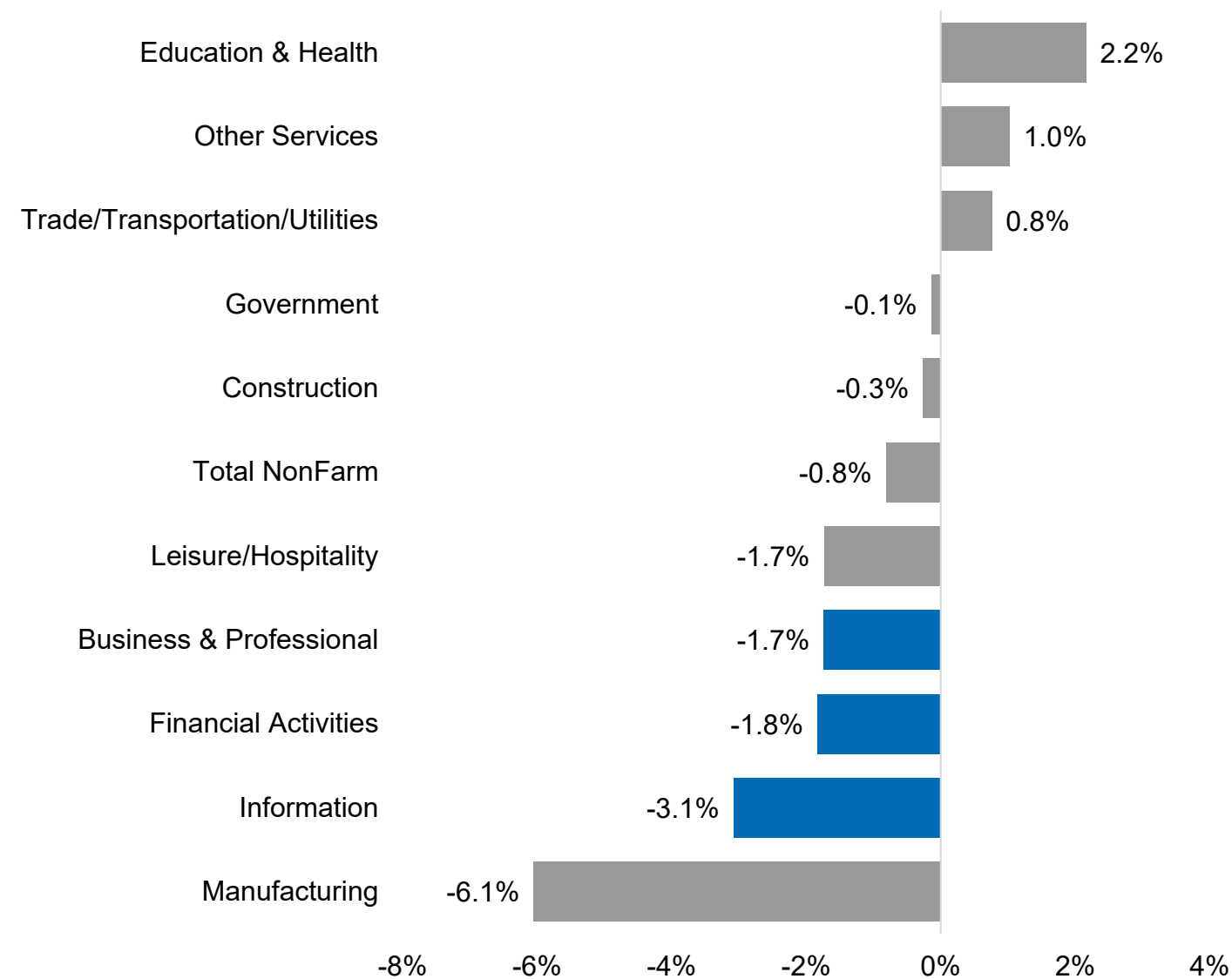
# Office Using Employment Down 2.1% Year-Over-Year

All three of the office-using industries shrank in size over the last year, with a combined contraction of 2.1%, although the largest drop was in the information sector. Overall gains in the Education and Health, Other Services and Trade/Transportation/Utilities sectors did not make up for losses in other sectors, and regionally the area has about 9,300 fewer jobs than in May 2024.

Employment by Industry, May 2025



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

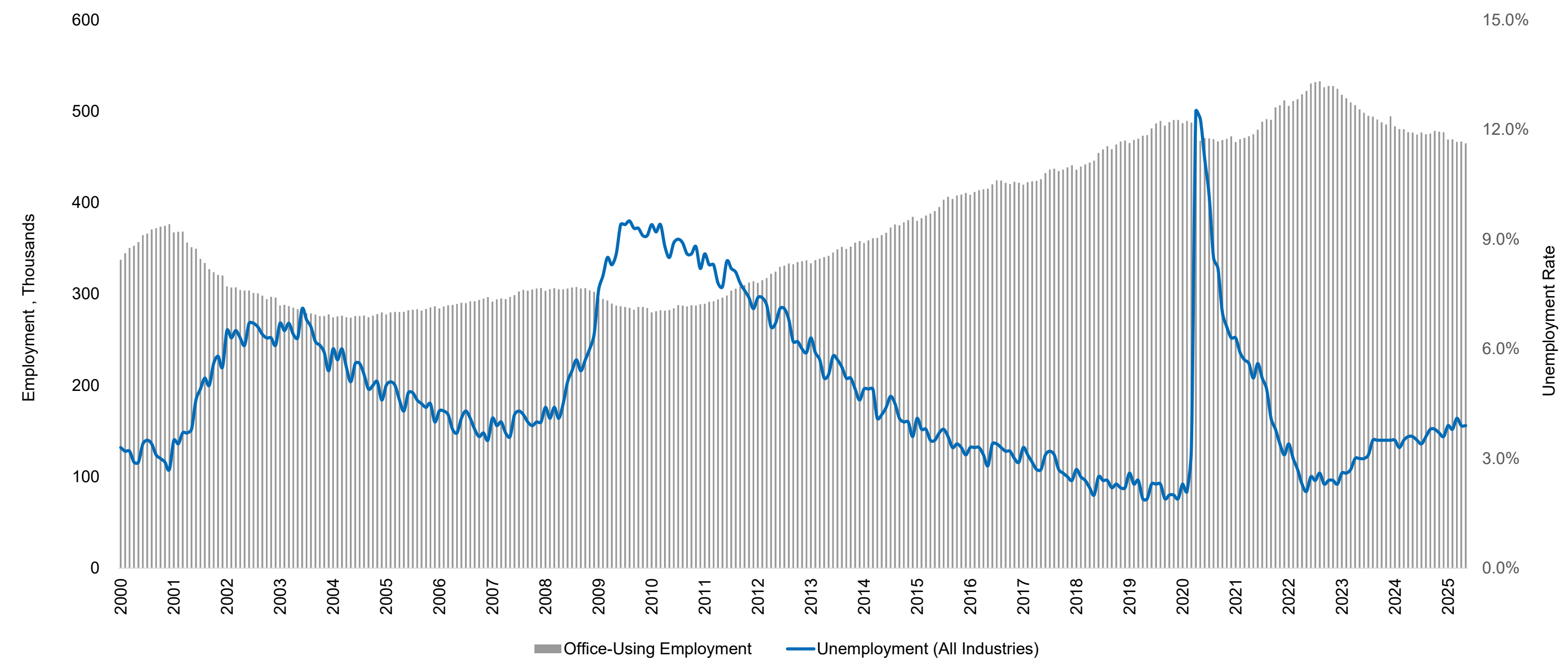


Source: U.S. Bureau of Labor Statistics, San Francisco-Redwood City-South San Francisco. Data is preliminary.

# Unemployment Rate Below National Average

The overall unemployment rate of 3.9% remains below the national rate of 4.2%, but there has been an 12.7% decrease in office-using employment since the height of hiring in 2022. Overall office-using employment is down 2.1% year-over-year, having dropped by over 12,000 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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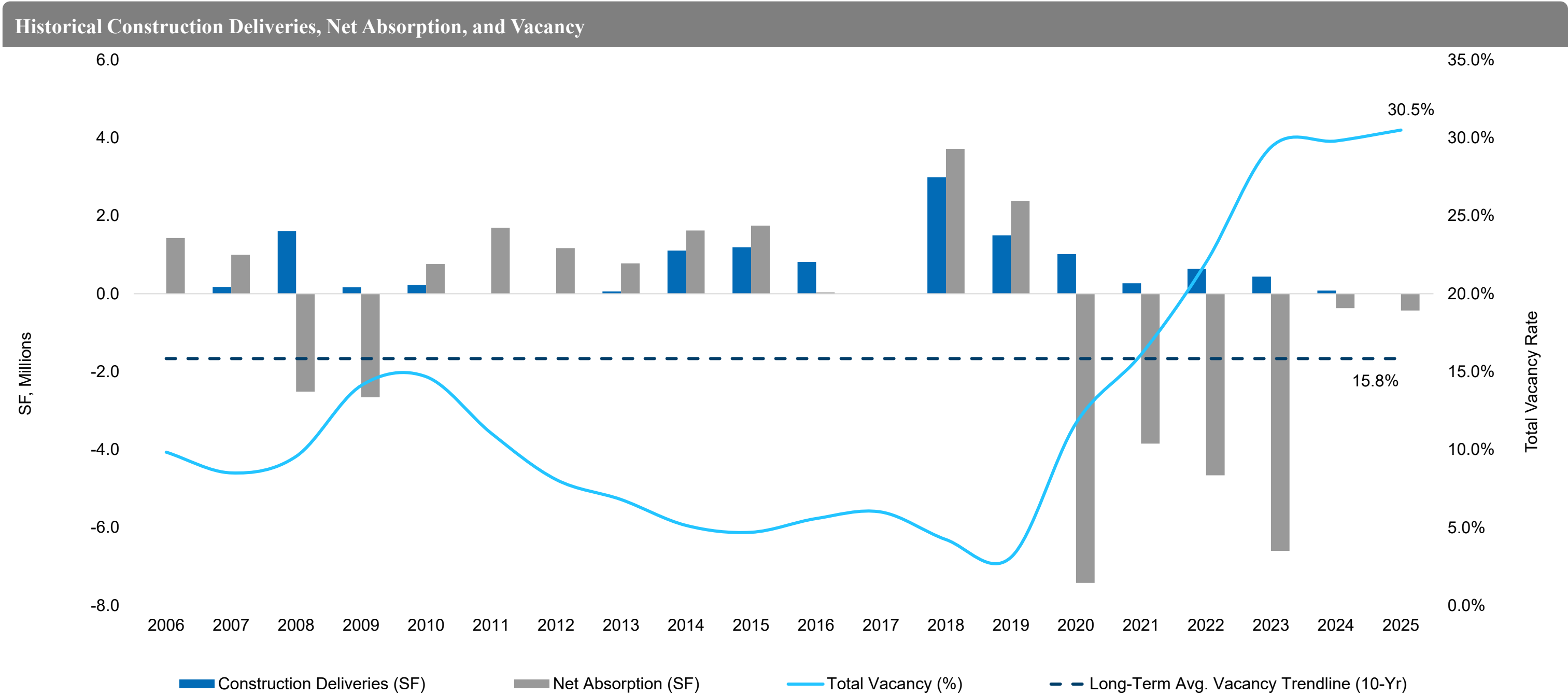
# Leasing Market Fundamentals





# Incremental Increase in Vacancy

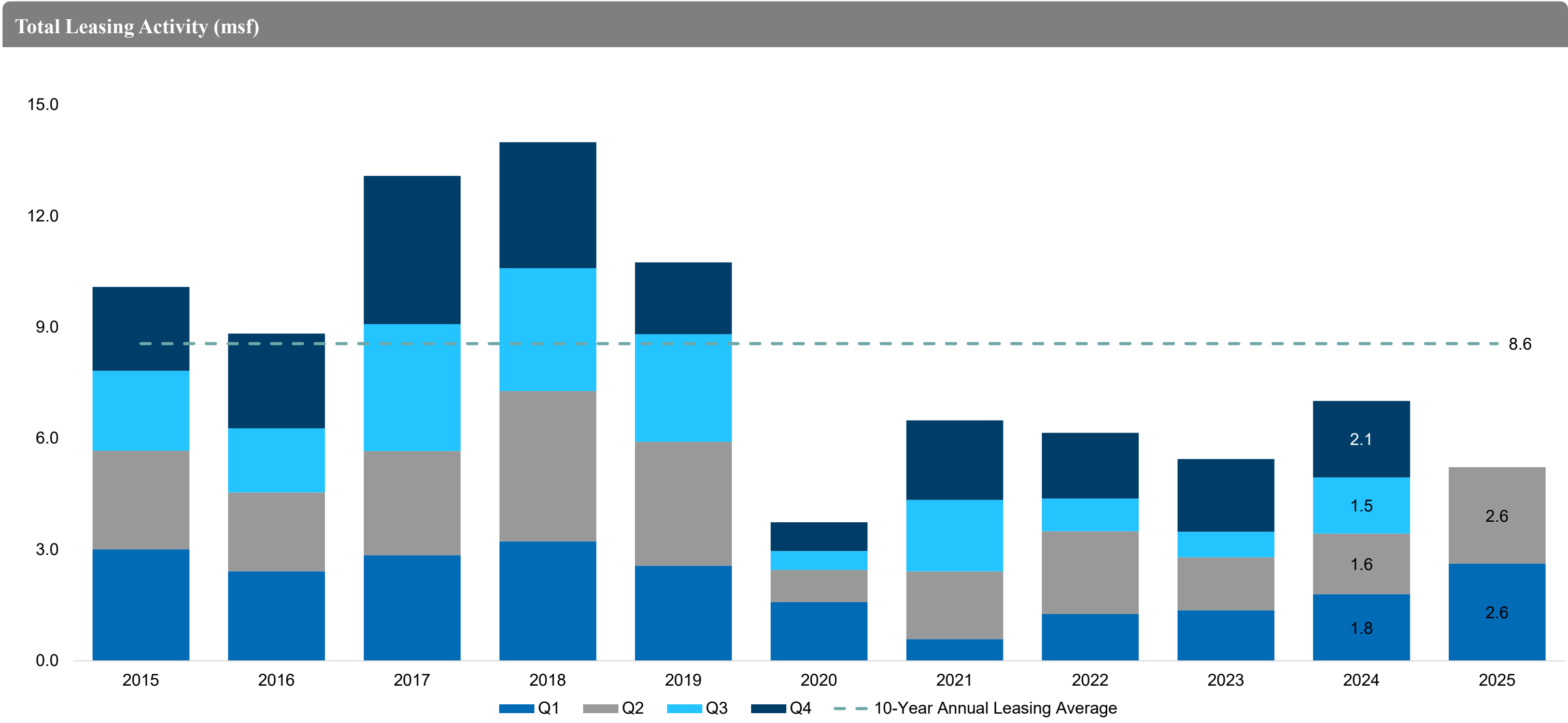
Net absorption for the first half of 2025 was just under negative 431,000 square feet. Second quarter absorption of negative 234,000 square feet was driven by large move-outs from Google, Cruise and Airbnb. These three tenants contributed a total of nearly 596,000 square feet of negative absorption and without these move-outs we would more clearly see the market is stabilizing. Overall availability decreased by 120 basis points in the second quarter, and stands at 36.1%.



Source: Newmark Research, CoStar

# Leasing Activity Back to Pre-Pandemic Levels

Total leasing for the each of the first two quarters of the year was over 5.2 MSF, and was on track to achieve 2019 leasing totals should this momentum continue, which it very well could with tenant demand of 7.6 million square feet at its highest level since pre-pandemic. Tenants leasing at new locations this quarter included Coinbase, which signed over 150K sf, and Morrison Foerster, which signed 112K sf. Additionally, LinkedIn and UCSF signed renewals close to 150K sf, which aren't included in leasing totals.



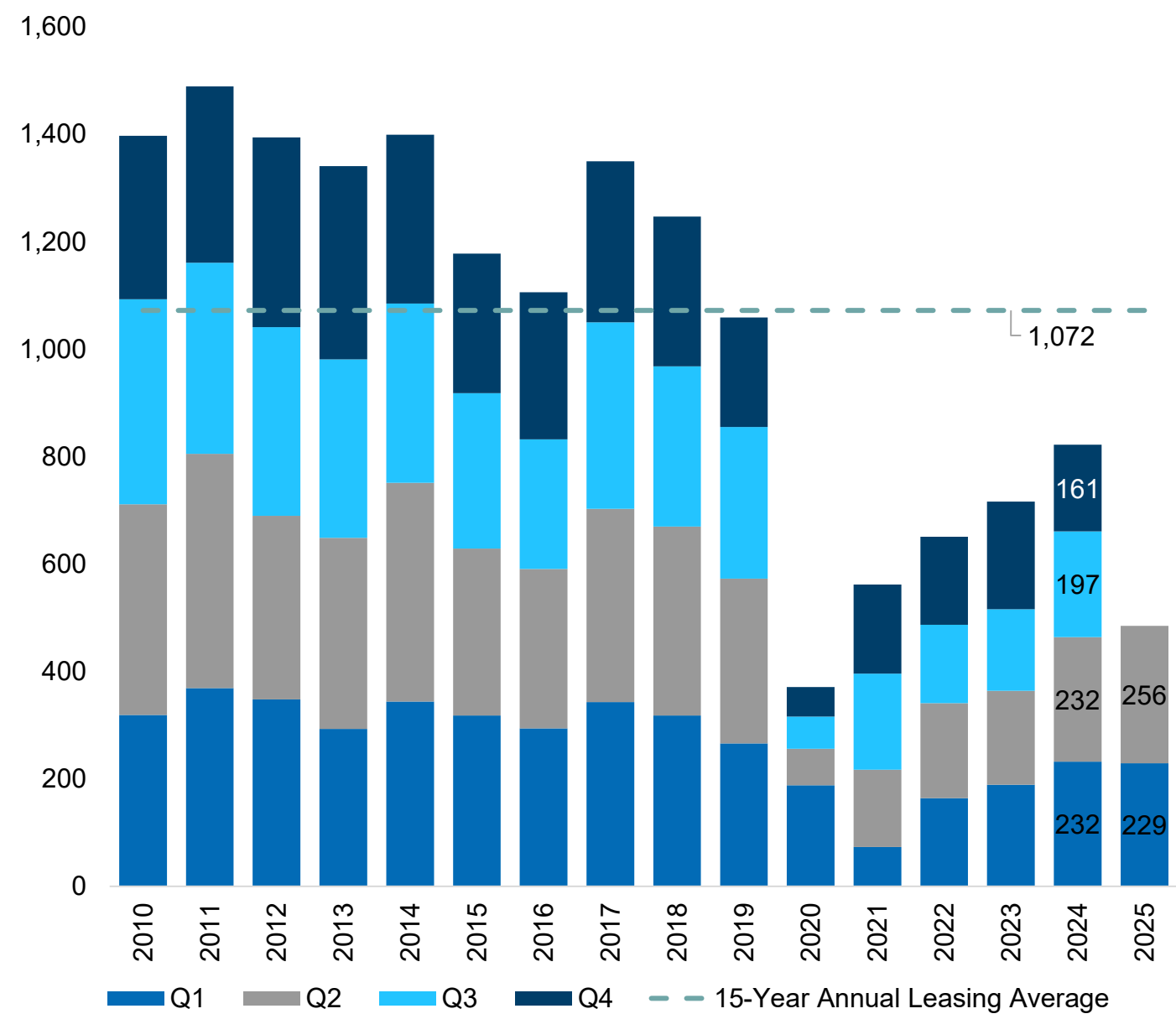
Source: Newmark Research, CoStar



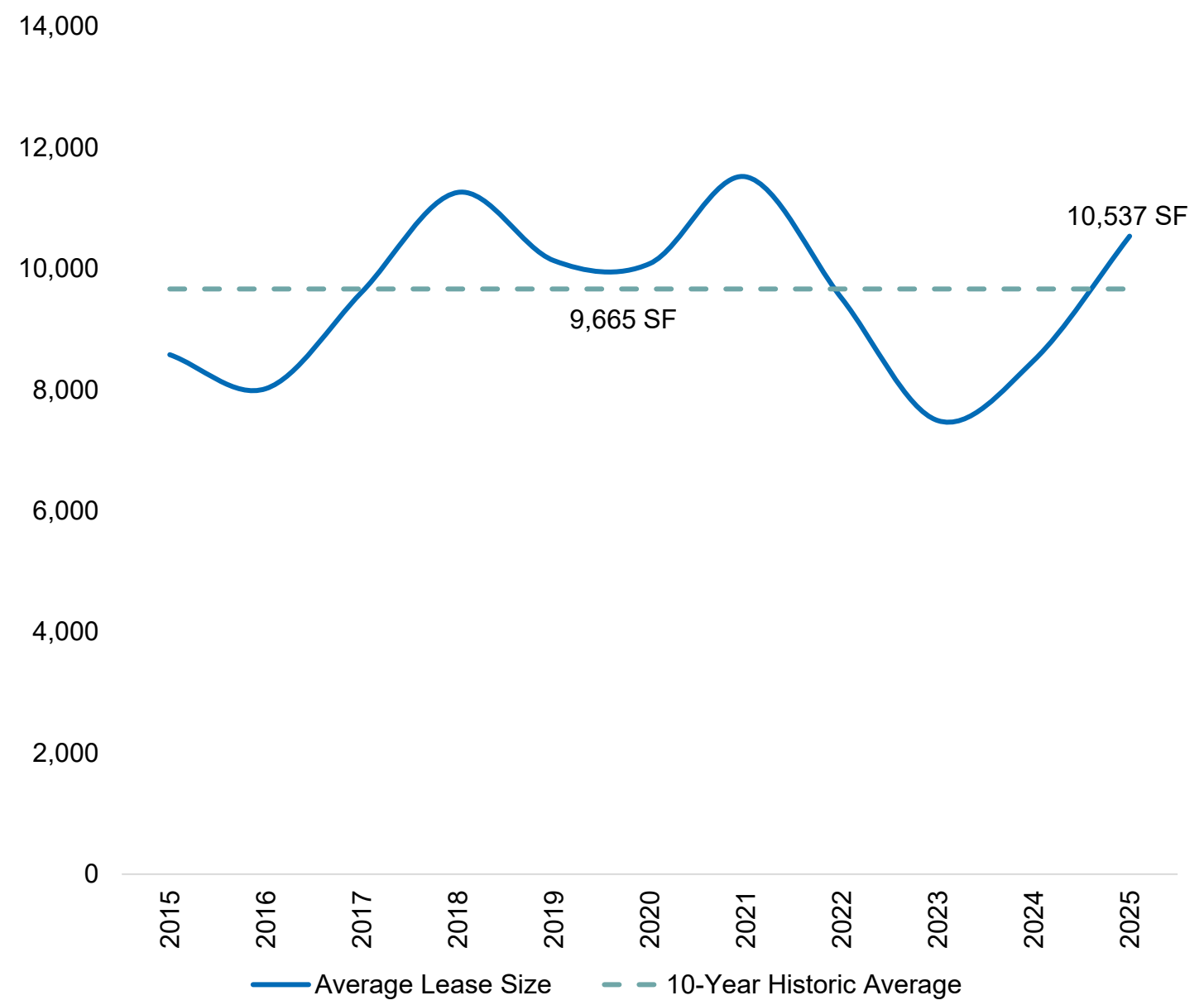
# Leases Increased in Size and Frequency

Total leasing over the last few years has been impacted by both a fewer number of leases and a smaller size for each lease, but that trend changed in the first half of the year. There were more leases signed in the second quarter than in any quarter since the third quarter 2019. Additionally, the average lease size in 2025 so far was 10,537 square feet, which is 9.0% larger than the 10-year historic average and an increase of 40.6% compared to average lease size in 2023.

Number of Leases Signed



Average Lease Size (sf)



Source: Newmark Research, CoStar



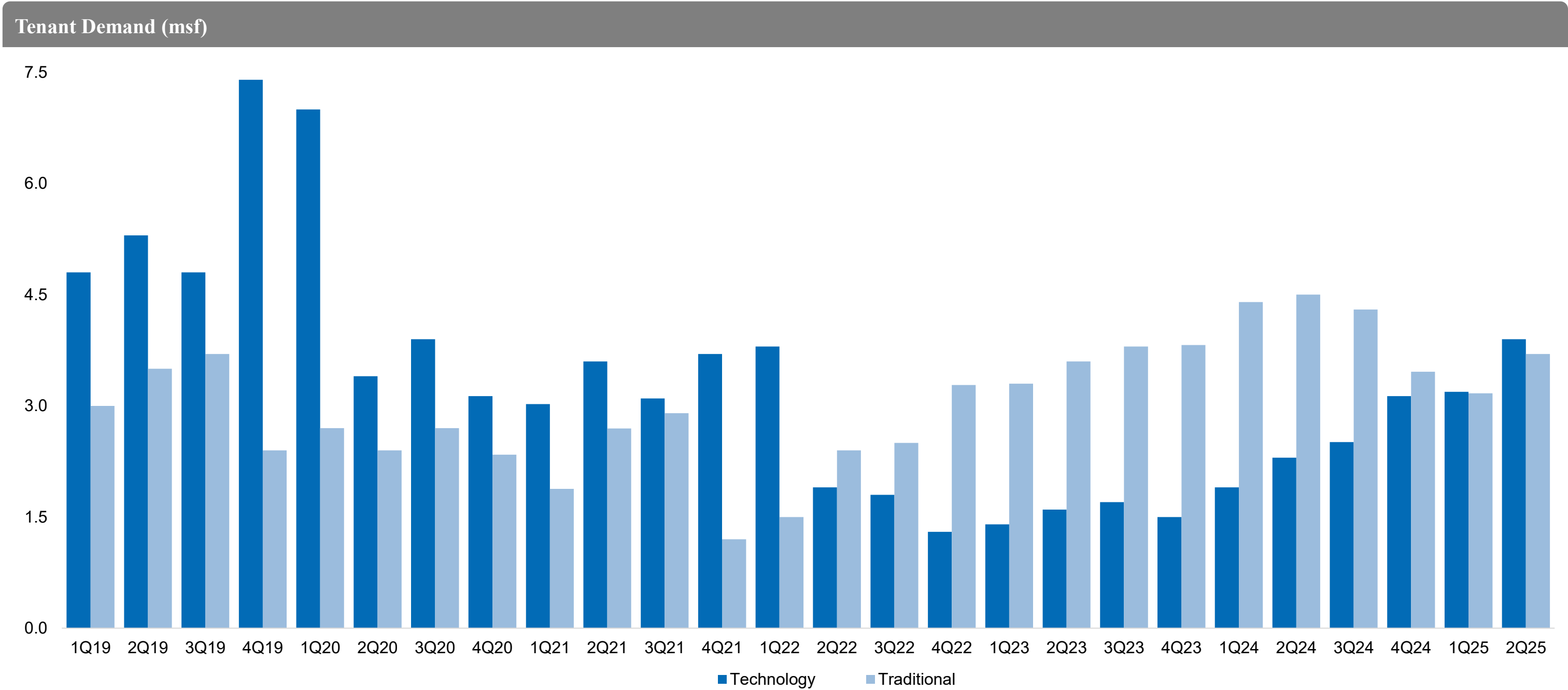


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# Demand from Tech Companies at Highest Level Since 2020

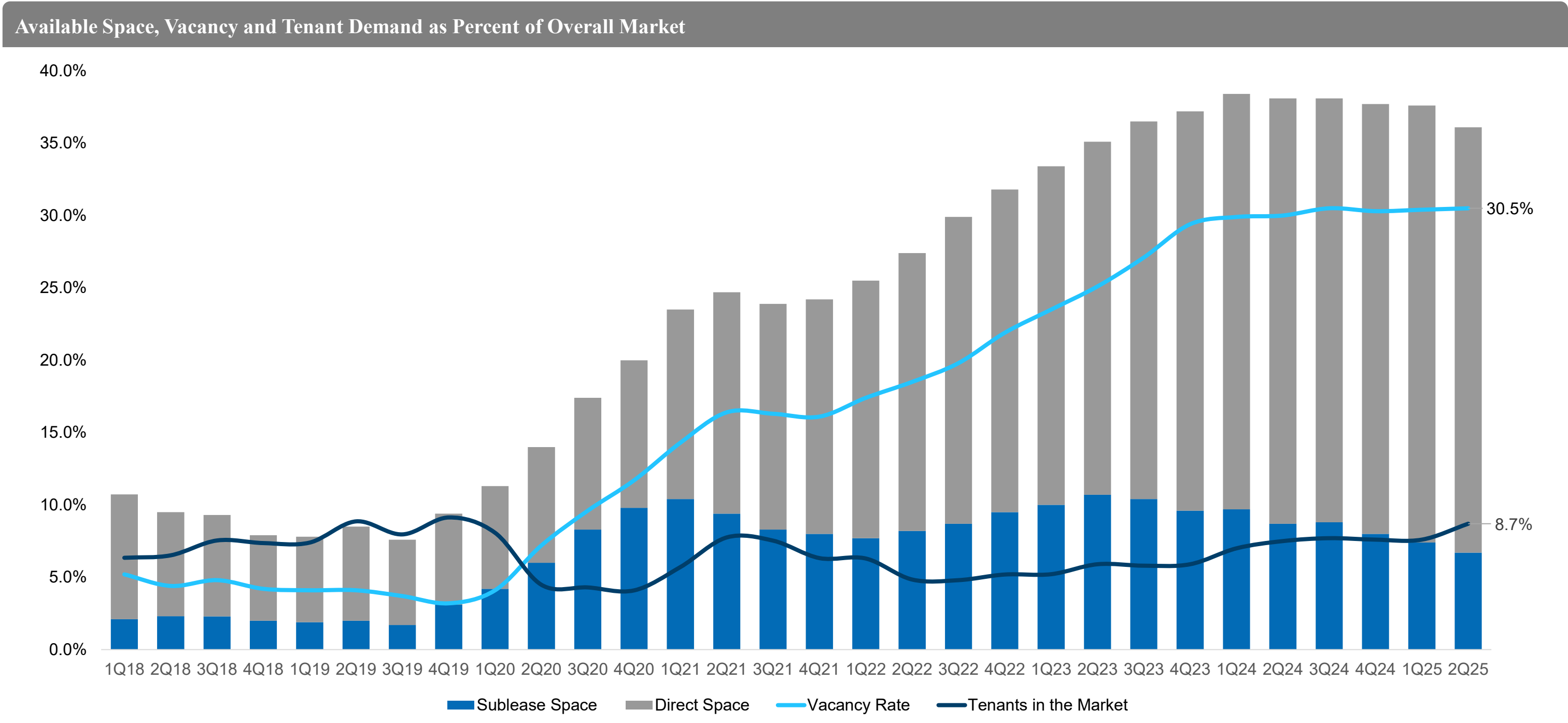
The balance of tech and traditional tenants flopped during a few years post-pandemic but the balance has shifted back to tech tenants. Demand from technology companies has increased the past six quarters to its highest level since the third quarter 2020 as emerging AI companies are expanding and more mature tech firms enter to the market looking to downsize.



Source: Newmark Research

# Increase in Tenant Demand as Sublease Space Continued to Decrease

Available sublease space has declined year-over-year from totaling 8.7% of the market to 6.7% of the market, while overall availability decreased 120 basis points to 36.1%. While changes in vacancy are not nearly as severe as the escalations between 2020-2023, they have been slowly increasing over the past 6 quarters and ended 50 basis points higher year-over-year at 30.5%. However, tenant increased quarter-over-quarter and are at the highest level since pre-pandemic.



Source: Newmark Research, CoStar





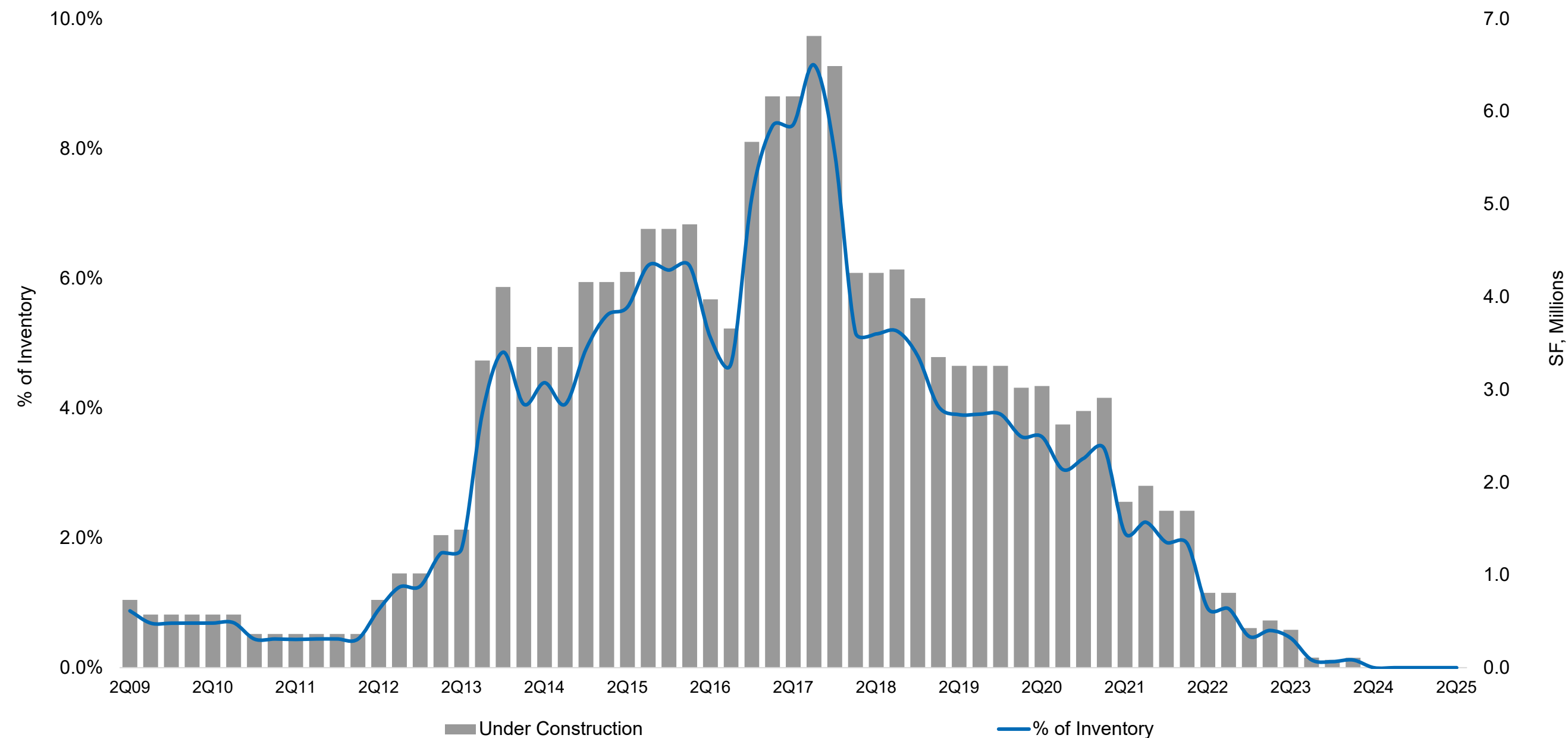
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# No New Office Development Under Construction in San Francisco

Rising construction costs and an uncertain economic outlook has halted new office construction completely. This marks five 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



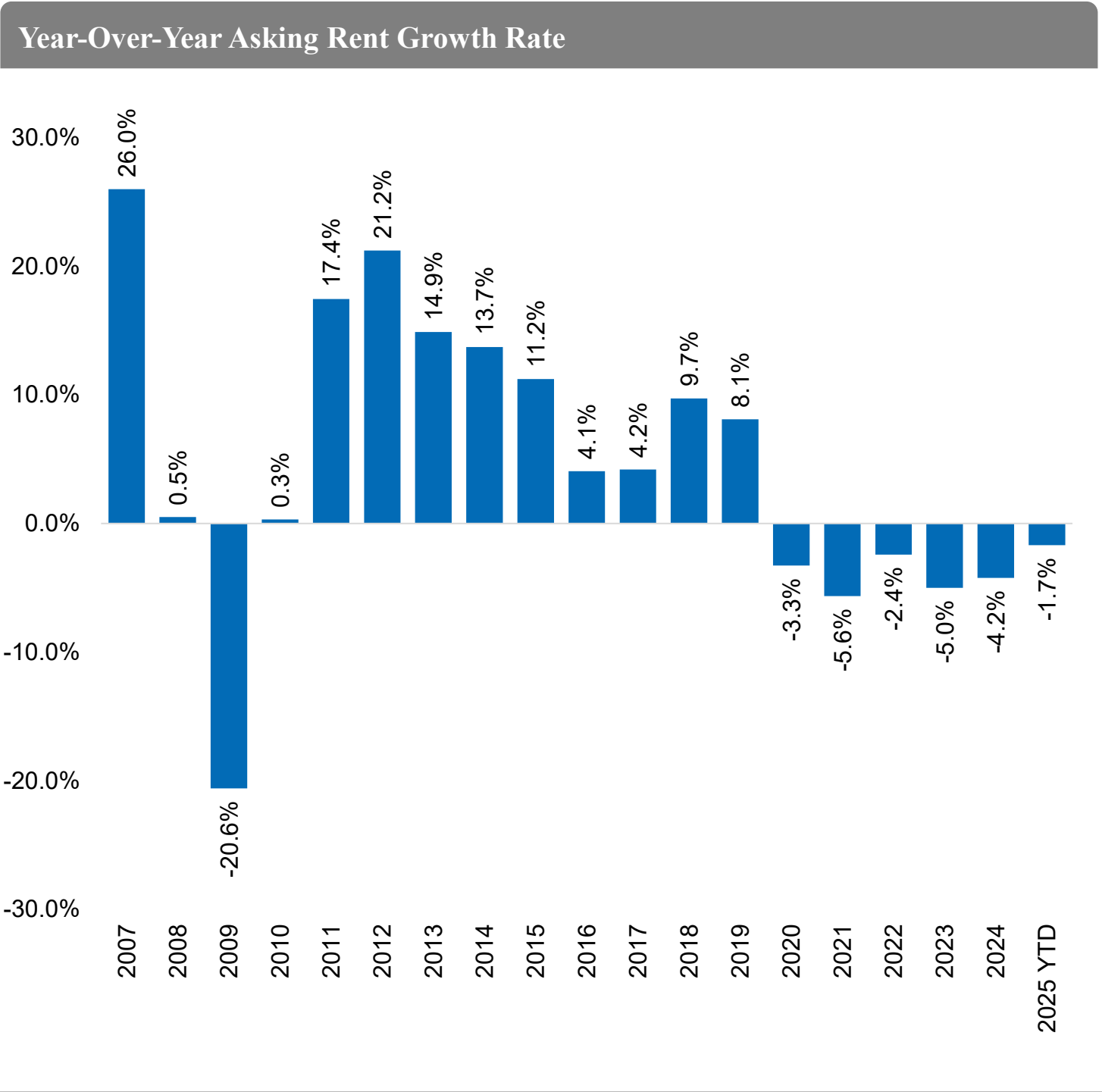
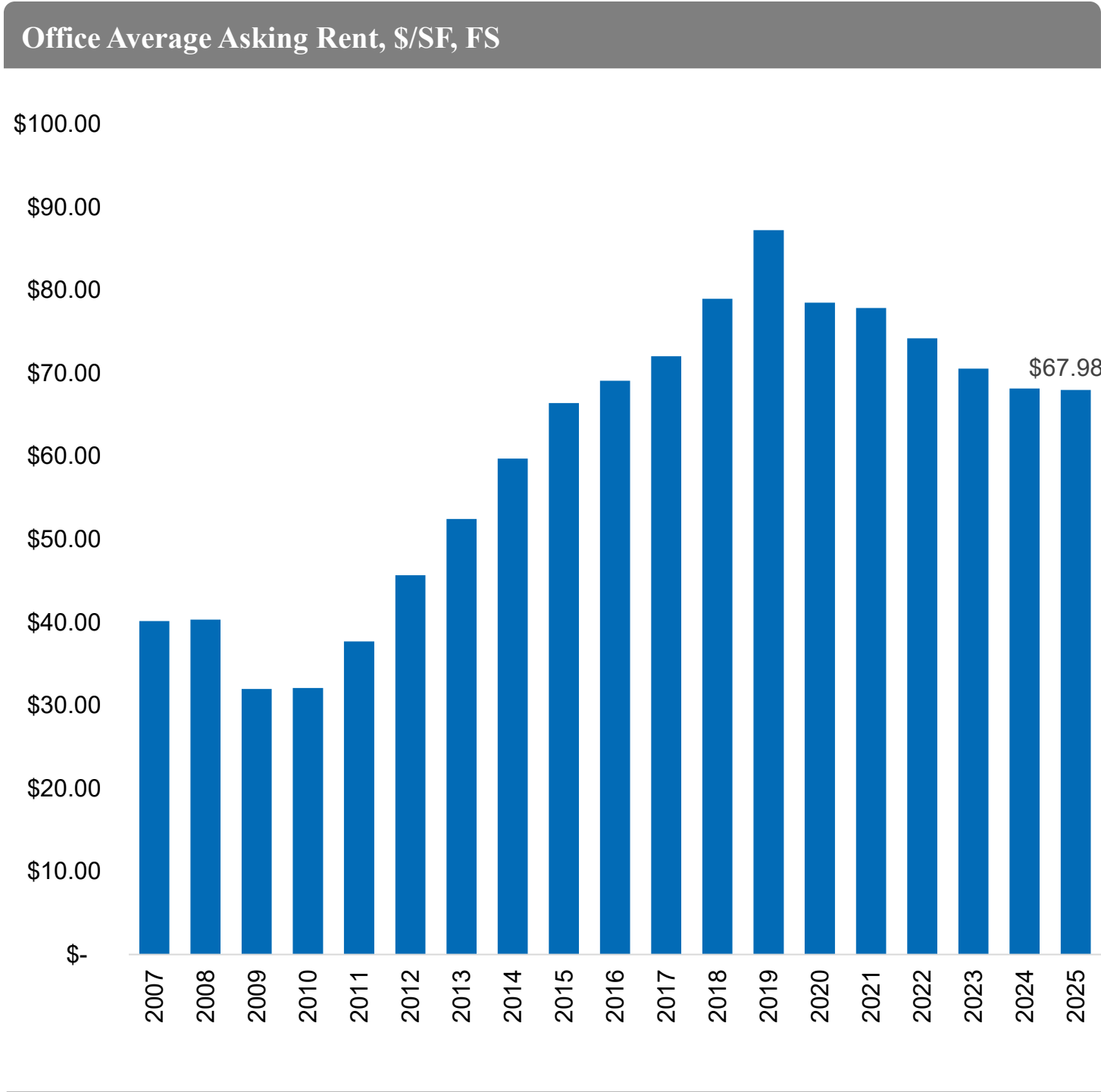
A low-angle, upward-looking photograph of a modern building's interior or exterior structure. The image features a complex network of steel beams and girders forming a grid-like pattern. Large glass panels are visible, reflecting the sky and other parts of the structure. The perspective creates a sense of height and architectural scale. A solid blue horizontal band is overlaid across the middle of the image, containing white text.

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# Decreases in Overall Market Rents Slowed

Direct asking rents have been steadily declining since 2020, dropping by a total of 22.1% since peaking in the fourth quarter of 2019. Average direct asking rates were \$67.98/SF at the end of the second quarter – marking the lowest average asking rate since 2015. On a more positive note, rents have decreased just 0.3% since the end of 2024.

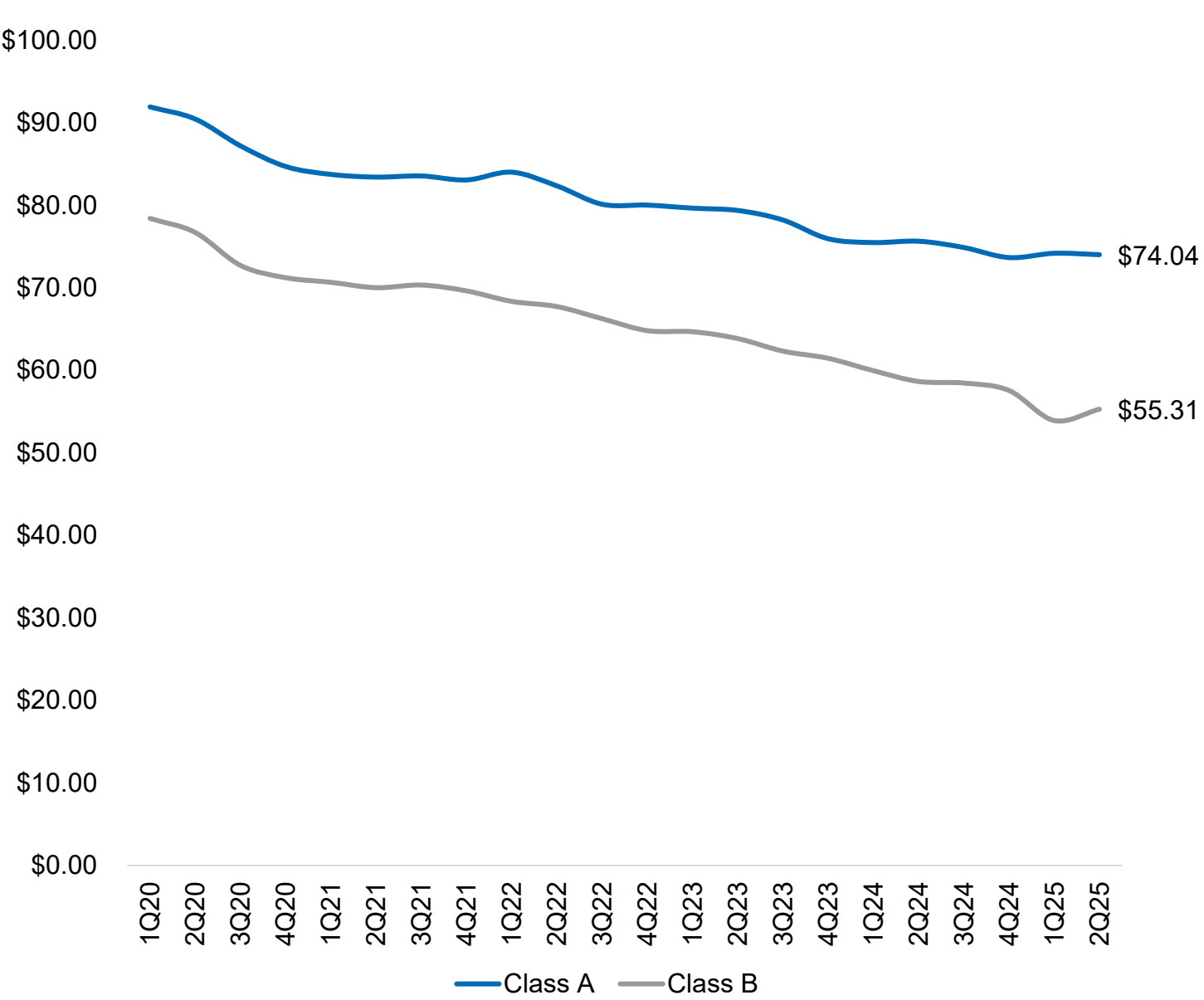


Source: Newmark Research, CoStar

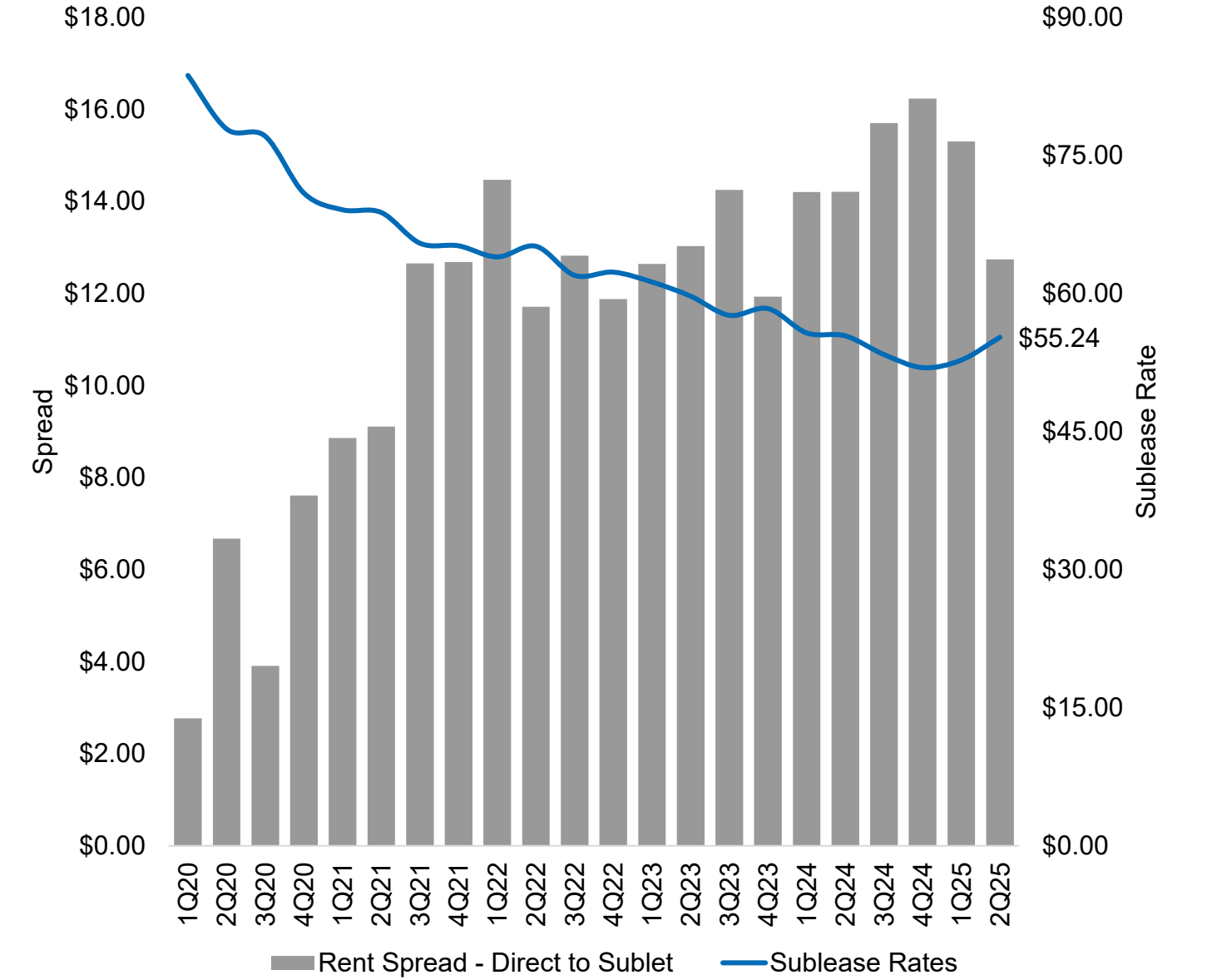
# Sublease Asking Rents Continued to Stabilize

Although there was an increase in sublease rents in the second quarter, sublease asking rents have fallen 34.0% since the start of 2020. 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, although that delta has decreased in recent months and now stands at \$12.74/SF. Since the start of 2020, Class A asking rates have declined by 19.9%, while Class B rates have declined by 31.7%.

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 second quarter. Several leases above 100K sf were signed, including new leases Coinbase at 1090 Maya Angelou Ln and Morrison Foerster at 101 California and renewals from LinkedIn at 222 Second St and UCSF at 499 Illinois St. Meanwhile, while AI companies took advantage of tenant-friendly market dynamics with leases by Harvey at 201 Third St and Glean at 634 Second St.

Notable 2Q25 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Coinbase	1090 Maya Angelou	SOMA - Mission Bay	Direct	150,671
LinkedIn	222 Second St	Financial District South	Renewal	150,000
UCSF	499 Illinois St	SOMA - Mission Bay	Renewal	147,128
Morrison Foerster	101 California St	Financial District North	Direct	112,000
Harvey	201 Third St	Financial District South	Direct	92,814
Fenwick & West	One Front St	Financial District North	Direct	58,735
Generate Capital	650 Davis St	Waterfront N/Jackson Sq	Direct	46,000
Simpson Thatcher	One Market Plz - Spear	Financial District South	Direct	43,532

Source: Newmark Research, CoStar



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# Appendix







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