NEWMARK

San Francisco Office Market Overview

2Q26

NMRK.COM

Key Takeaways

The San Francisco office market's recovery gained further traction in the second quarter, posting its fourth straight quarter of positive net absorption. Behind the first quarter of 2026, leasing activity was the second strongest quarter since 2019.

3.3 MSF leasing activity	870 KSF net absorption	9.8 MSF tenant demand	380 bps vacancy drop YoY

San Francisco Market Observations

Economy

- In May, the San Francisco–San Mateo region recorded an unemployment rate of 3.3%, a modest improvement from 3.6% at the end of the prior quarter and below the national average of 4.3%.
- The U.S. Consumer Price Index (CPI) inflation rate declined to 3.5% in June, down from 4.2% in May, indicating that the inflation surge seen at the beginning of Q2, driven by the war with Iran, was beginning to fade.
- June's CPI reading indicates that moderating inflation is likely to reduce the likelihood of additional Federal Reserve interest rate hikes this year.

Leasing Market Fundamentals

- Second-quarter absorption of 870,000 square feet marked the fourth quarter in a row of positive absorption in San Francisco, which has not occurred since 2019.
- Second quarter leasing totaled 3.3 million square feet, the second strongest quarterly performance since 2019, trailing only the first quarter of 2026. Tenant demand remains strong at 9.8 million square feet.
- Overall availability decreased by 130 basis points to 28.8% quarter-over-quarter, while vacancy declined by 100 basis points to 26.4%.
- Average direct asking rents rose to $69.86 per square foot, up 3% quarter-over-quarter. This is the first quarter in 6 years with an increase over 1%.

Major Transactions

- The largest lease of the quarter was the City and County of San Francisco expanding by 502,000 square feet at 1455 Market Street, which is the largest office deal in San Francisco since 2018.
- Anthropic's initial sublease at 500 Howard was relatively short term but has now secured a 241,000 square foot longer-term lease on a direct basis, maintaining full-building occupancy.
- Brex renewed its lease on the upper floors at 270 Brannan and expanded into the remaining four floors, now occupying the entire 215,374-square-foot building.
- BridgeBio took the largest sublease for the second quarter, subleasing and expanding into 95,000 square feet in Dropbox's former headquarters at 1800 Owens.
- Strada Investment Group purchased 1 De Haro St for $110,000,000, or $824.42 per square foot.

Outlook

- Tenants leased approximately 7.5 million square feet in the first two quarters of 2026, putting the market on pace for 15 million square feet this year, which would mark a 30-year high. The market does not appear to be slowing down any time soon, as tenant demand remains strong at 9.8 million square feet.
- Sublease availability is contracting steadily, with sublease space as a percentage of total inventory returning to pre-pandemic levels. As the remaining sublease inventory is absorbed, asking rates are expected to continue trending upward.
- Tech and AI tenants currently represent 5.5 million square feet of active demand, or 54% of total tenant activity in the market, and their rapid growth suggests they will continue to outgrow smaller leases as they expand.

Table of Contents

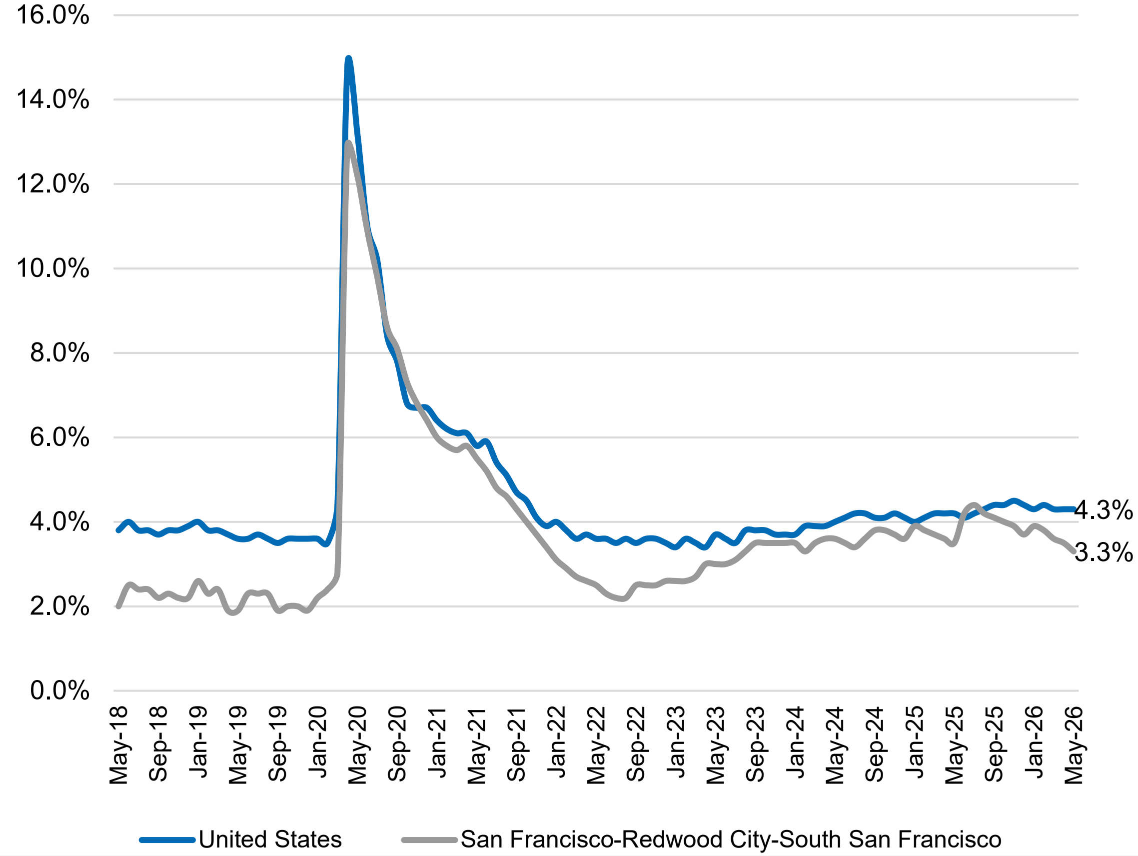
01

Economy

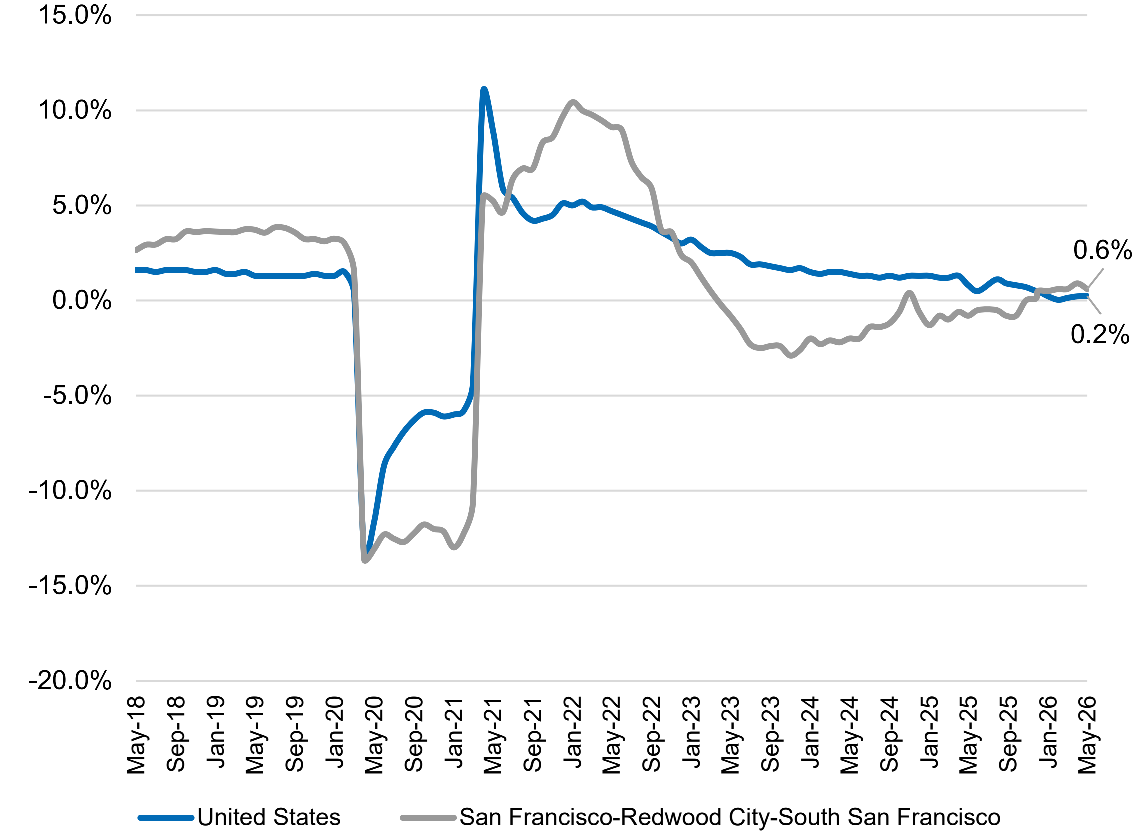
Regional Unemployment Remains Below National Average

The region's unemployment rate declined by 60 basis points between January and May of 2026, while the U.S. rate remained at 4.3% during the same period. In May, the region's unemployment rate was 200 basis points below the California average, which stood at 5.3%.

Unemployment Rate, Seasonally Adjusted



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

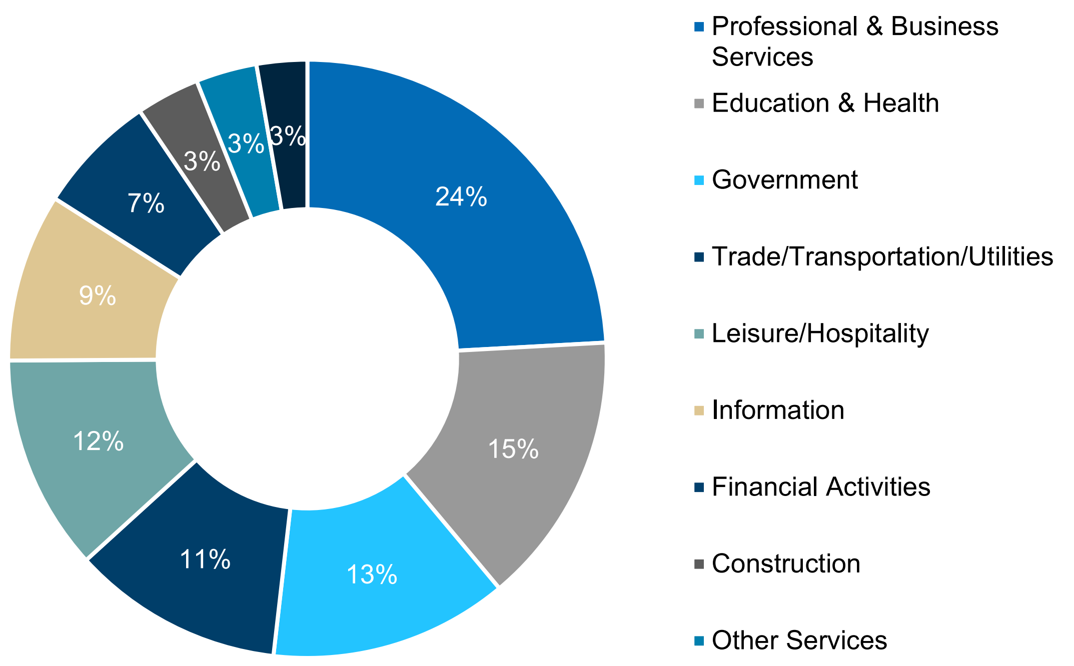


Source: U.S. Bureau of Labor Statistics, San Francisco-Redwood City-South San Francisco

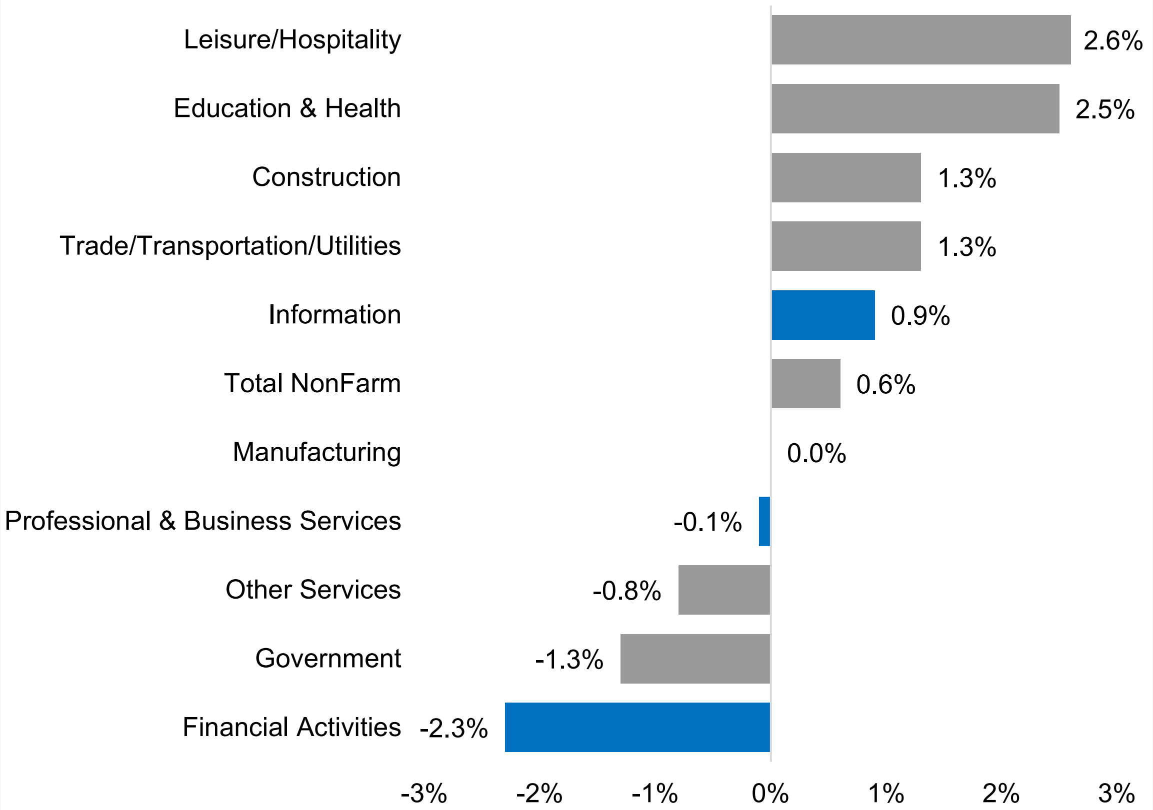
Financial Companies Experience Largest Decline in Employment

While office-using employment grew year over year in the Information sector, it fell more sharply in Financial Activities, which has declined steadily from a peak of 86,600 workers in August 2022 to 73,600 in May of 2026. Professional and Business Services remains the dominant sector in the region, with 272,000 jobs.

Employment by Industry, May 2026



Employment Growth by Industry, 12-Month % Change, May 2026

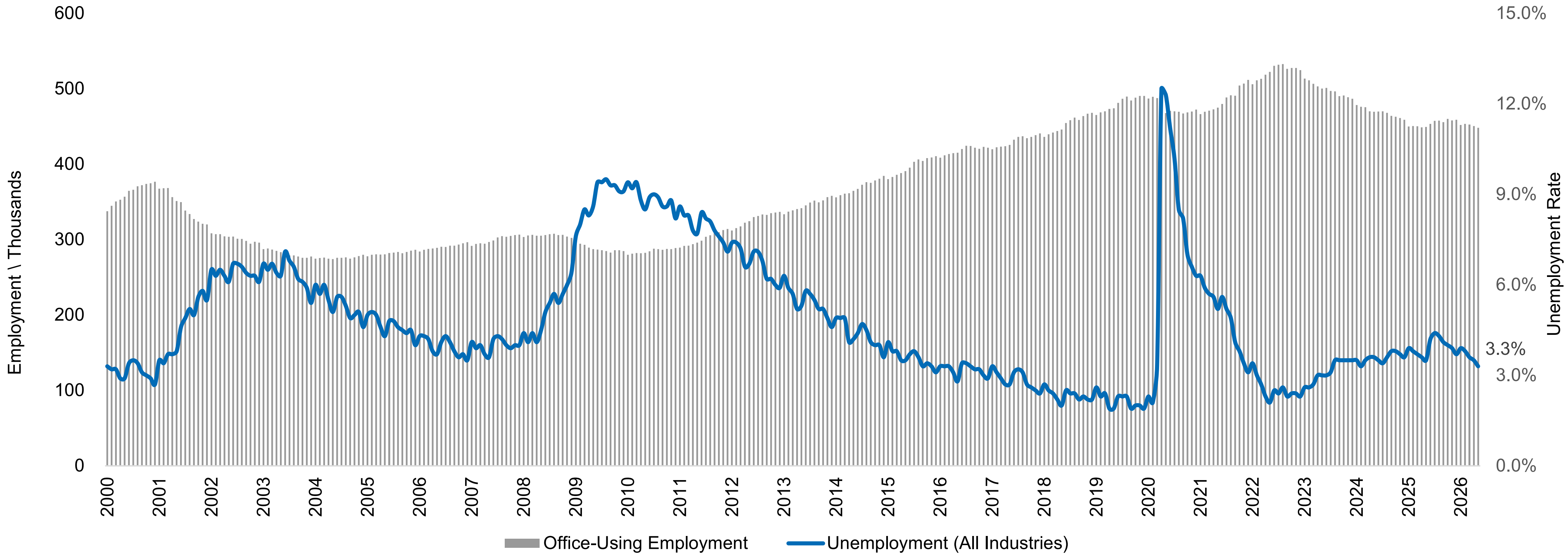


Source: U.S. Bureau of Labor Statistics, San Francisco-Redwood City-South San Francisco. Data is preliminary.

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

Office-using employment continued to edge lower in the second quarter of 2026, even as the overall unemployment rate moved down over the same period. Tech sector layoffs and ongoing restructuring remain the primary drivers of office job losses. Unlike the prolonged recovery that followed the 2008 financial crisis, the office labor market rebounded quickly from the pandemic shock, though concerns persist that automation could structurally reduce demand for certain office-using roles.

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.

02

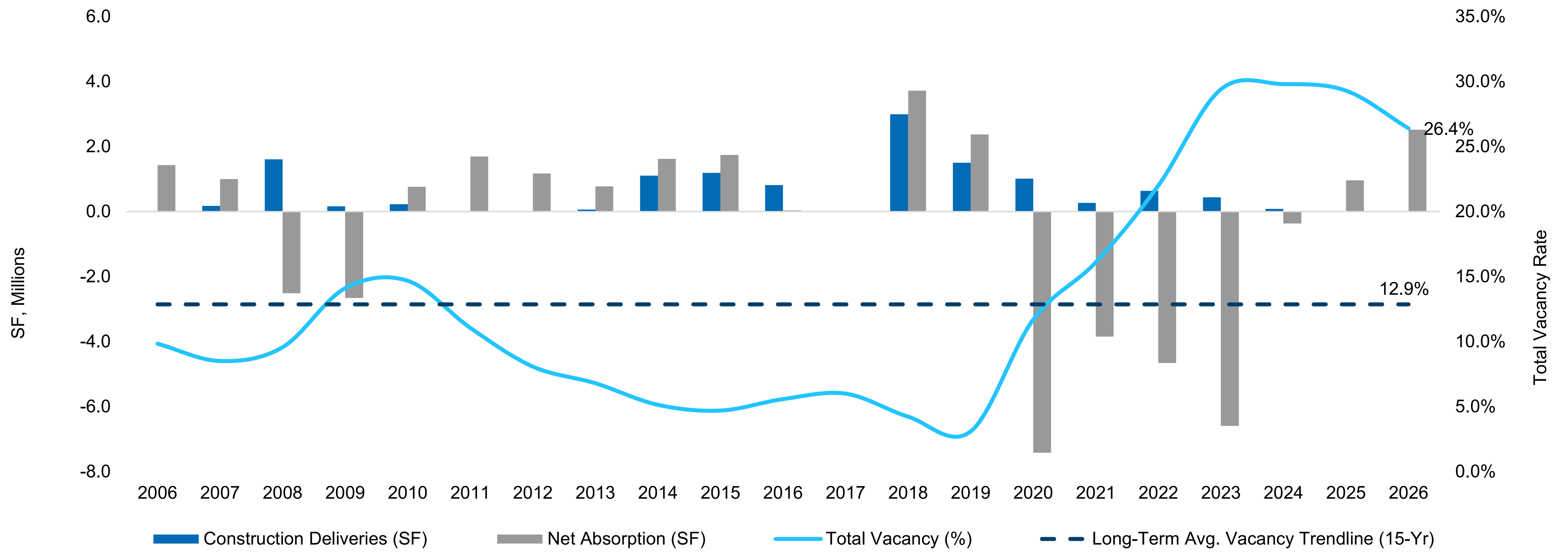
Leasing Market Fundamentals

2Q26

Noticeable Decrease in Vacancy

Sustained leasing momentum in the second quarter of 2026 produced 870,000 square feet of positive net absorption, bringing year to date absorption to 2.5 million square feet, slightly more than 2.4 times all of 2025's total absorption. Overall vacancy dropped 150 basis points quarter-over-quarter and 360 basis points year-over-year.

Historical Construction Deliveries, Net Absorption, and Vacancy

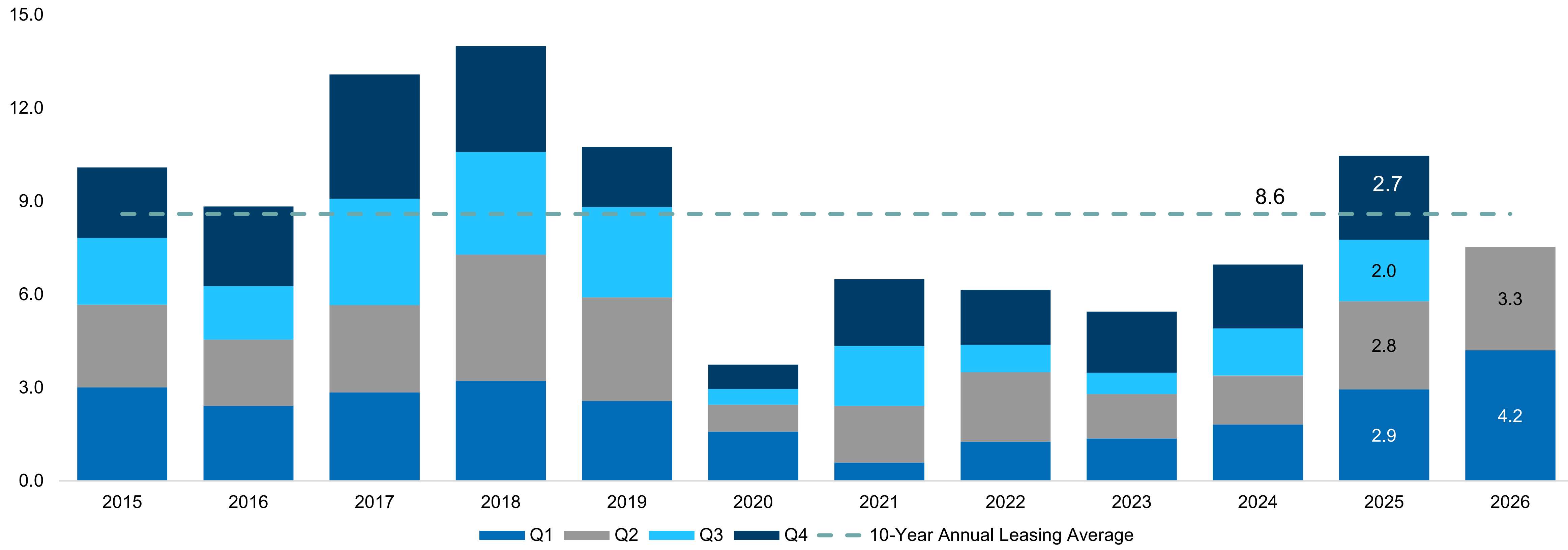


Source: Newmark Research, CoStar

Historic Leasing Activity

Second quarter leasing totaled 3.3 million square feet, the second strongest quarterly performance since 2019, trailing only the first quarter of 2026. The market remains on track for a historic 15 million square feet of leasing, a 30-year high. Leasing activity was propelled by a wave of large tenant commitments, led by the City and County of San Francisco, which expanded its Mid-Market footprint by 502,000 square feet. Anthropic also continues to renew and grow its presence in the market.

Total Leasing Activity (MSF)

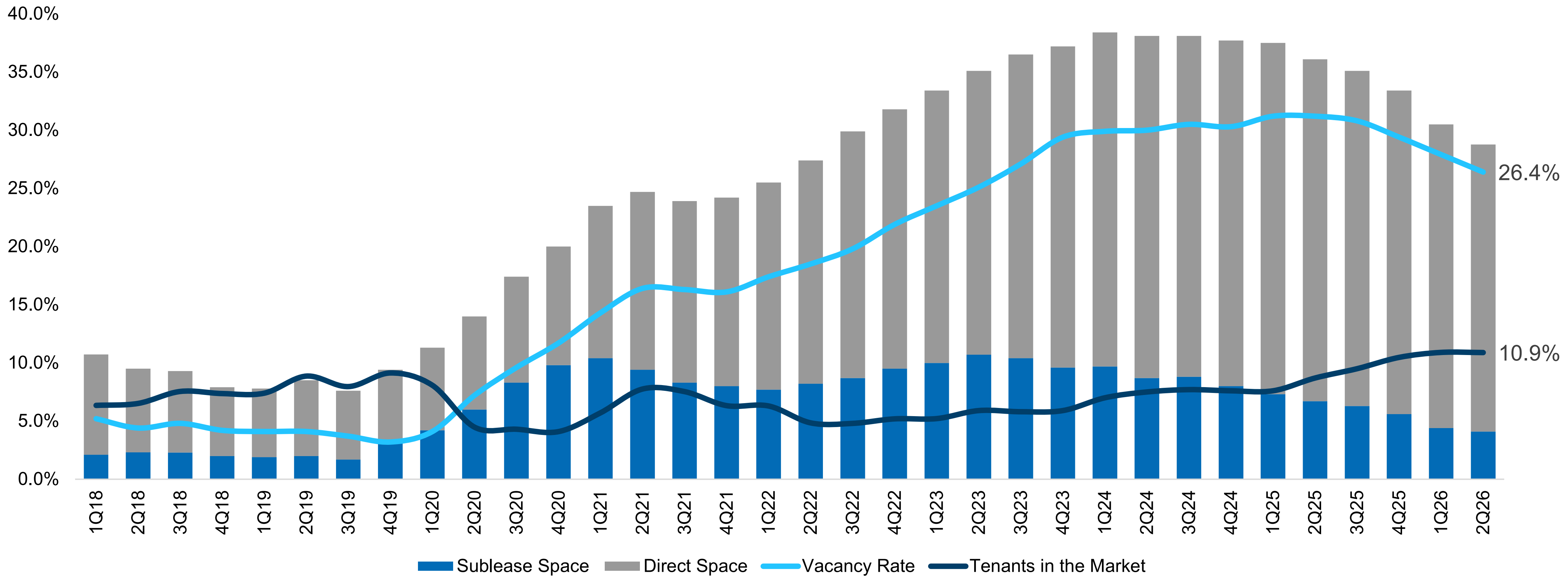


Source: Newmark Research, CoStar

Vacancy Continued to Decrease

After holding relatively steady for several quarters, vacancy has now fallen for the past 4 quarters in a row, while tenant demand continued to trend upwards for the past 5. Available sublease space has declined to 4.1%, compared to 6.7% of the market last year and 10.8% of the market at its peak mid-2023. Overall availability now sits at 28.8% and has dropped 700 basis points year-over-year, and 940 basis-points from its peak level in 2024.

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

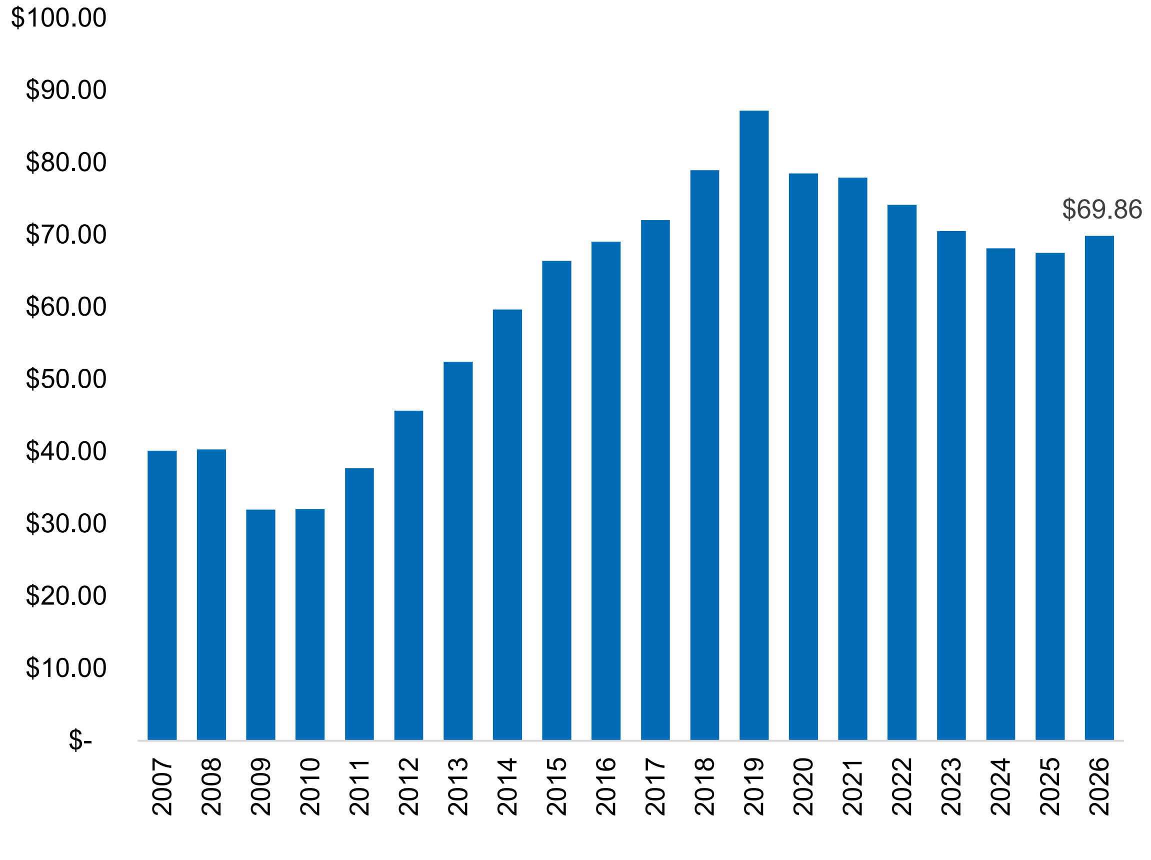


Source: Newmark Research, CoStar

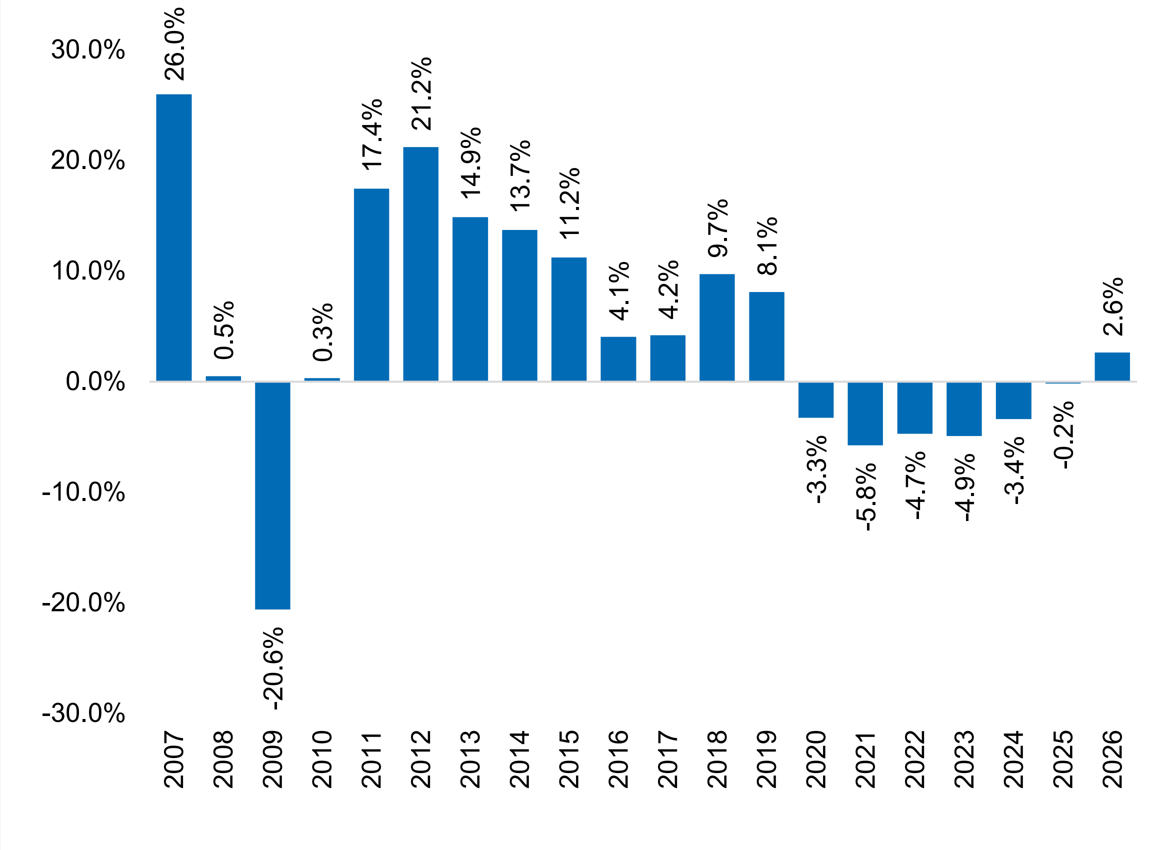
Market Rents Rising

Asking rent was up 3.0% percent quarter-over-quarter, the first quarterly increase over 1.0% in over six years, indicating that asking rents found a floor in 2025. Rising demand and a limited supply of premium, built-out space are shifting more leverage back to landlords at the negotiating table.

Office Average Asking Rent, $/SF, FS



Year-Over-Year Asking Rent Growth Rate

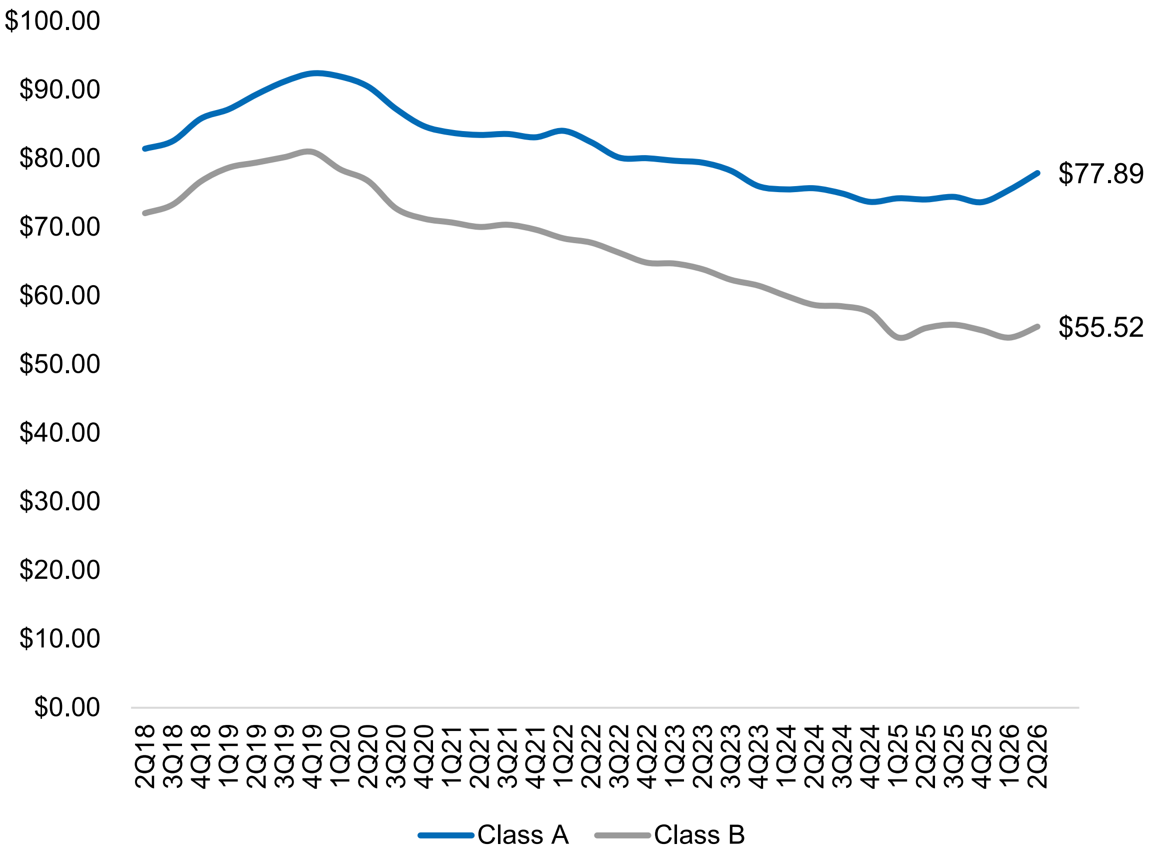


Source: Newmark Research

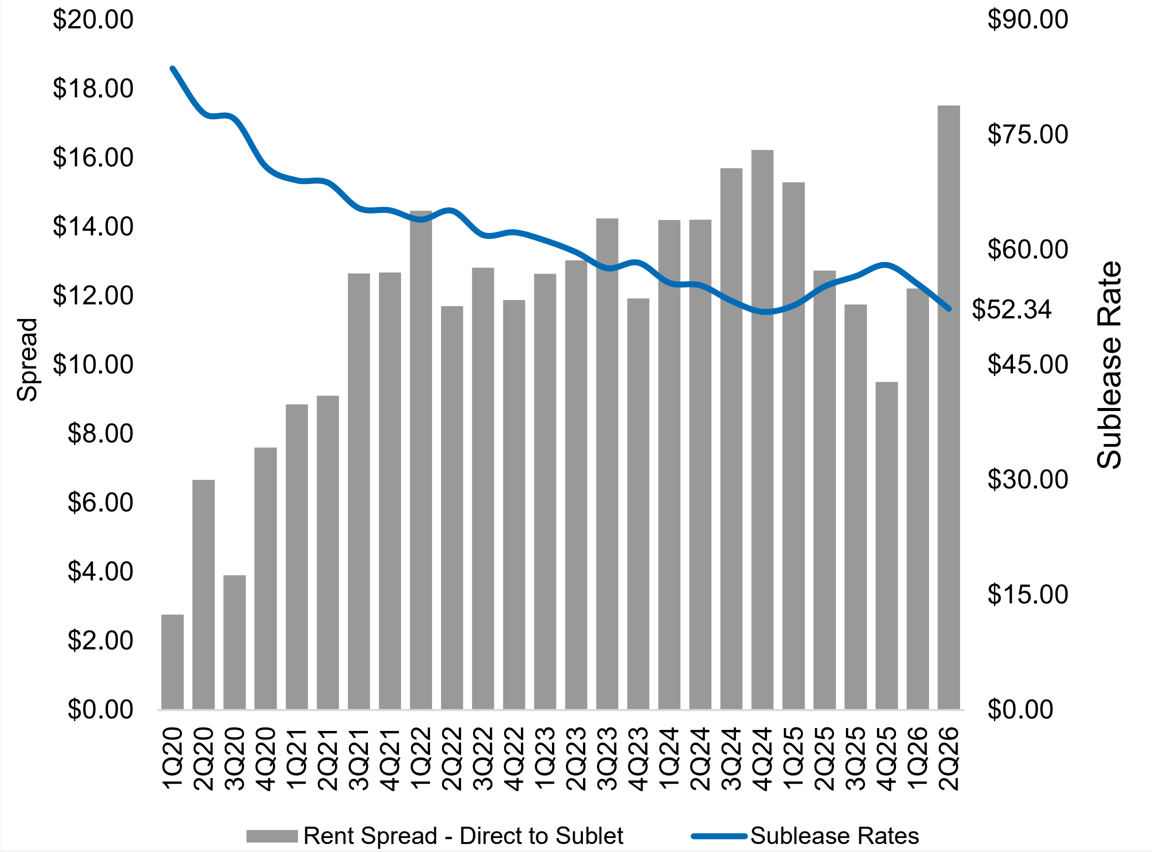
Gap Widened Between Sublease and Direct Asking Rents

Sublease asking rents declined in the second quarter of 2026 to 52.34 dollars per square foot, while direct rents rose by more than 3 percent over the same period. As a result, the spread between sublease and direct rates is now wider than at any point since the start of the pandemic. Both direct class A and B rents experienced increases over the second quarter, with class A rents rising by 3.2%, and class B rents rising by 3.0%.

Class A and B Asking Rents



Sublease Asking Rates



Source: Newmark Research, CoStar

Large Block Leasing in Q2

There were six office leases larger than 100K square feet in the second quarter of 2026, totaling 1.39 million square feet, led by the City of San Francisco's 502K-square-foot expansion at 1455 Market Street in MidMarket.

Notable 2Q26 Lease Transactions

Tenant	Address	Submarket	Type	Square Feet
City and County of San Francisco	**1455 Market Street**	**SOMA – MidMarket**	**Extension/Expansion**	**502,000**
The city now occupies 930k SF at 1455 Market and extends the occupancy to 2047.				
Anthropic	**500 Howard Street**	**Financial District South**	**Direct**	**241,628**
Initially occupied the building under a sublease, and in April retained full-building occupancy through a new direct lease.				
Brex	**270 Brannan Street**	**SOMA – East**	**Extension/Expansion**	**215,374**
Previously occupied floors 4-7 and expanded into the whole 215k SF building.				
PwC	**405 Howard Street**	**Financial District South**	**Renewal**	**196,356**
Renewed their large commitment at Foundry Square.				
Ripple Labs	**600 Battery Street**	**Waterfront North/Jackson Square**	**Renewal**	**124,547**
Renewed the entire building in Jackson Square.				
Planet Labs	**645 Harrison Street**	**SOMA – East**	**Extension/Expansion**	**109,159**
Epanded by roughly 38k SF and extended their lease.				
BridgeBio	**1800 Owens Street**	**SOMA – Mission Bay**	**Sublease Expansion**	**95,485**
Expanded in Dropbox's former headquarters at 1800 Owens.				
Anthropic	**405 Howard Street**	**Financial District South**	**Direct**	**72,091**
Continued to expand, needing immediate desk space while they prepare to transfer their headquarters to 300 Howard.				

Source: Newmark Research

Large Block Leasing continued

Notable 2Q26 Lease Transactions

Tenant	Address	Submarket	Type	Square Feet
LangChain	**303 Second Street**	**SOMA – East**	**Sublease**	**68,942**
Expanded their San Francisco footprint by roughly 57k square feet.				
Assort Health	**One Market Street – Spear Tower**	**Financial District South**	**Direct**	**62,384**
New premium space is roughly 45k SF larger than its previous lease.				

Source: Newmark Research

03

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**

To access, please reach out to your Newmark contact.

Jack Baughman
Senior Research Analyst
Northwest Research
Jack.Baughman@nmrk.com

San Francisco
1 Sansome Street, 41st Floor
San Francisco, CA 94104
t 415-445-8888

New York Headquarters
125 Park Ave.
New York, NY 10017
t 212-372-2000

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.