3Q25

San Francisco Office Market Overview

NEWMARK

Market Observations

Economy

- The unemployment rate increased to 4.2% as of the end of August after remaining sub-4.0% since October 2021. This rate is favorable to the national rate of 4.3%. Year-over-year the San Francisco Metropolitan Division has lost about 2,900 total jobs.
- All three of the office-using industries shrank in size over the last year, with a combined contraction of 2.0%, although the largest drop was in the information sector with a loss of 4,000 jobs. Office-using employment dropped by 9,700 jobs over the last 12 months ending in August.

Major Transactions

- The largest new lease of the quarter was Anthropic's 104K-square-foot lease at 505 Howard. Other new leases this quarter included Harvey AI's 93K-square-foot lease at 201 Third St and Vercel's 44K-square-foot lease at 201 Mission St .
- Several large renewals were signed this quarter, including DocuSign for 90K square feet at 221 Main St and CAI International for 25K square feet at One Market Plz-Spear.
- Subleases in the third quarter include Kikoff at 633 Folsom St for 55K square feet and Motive at 1355 Market St for 40K square feet.
- The largest sale by square footage during the quarter was REDCO Development's acquisition of Wells Fargo's long-time headquarters at 420 Montgomery St from the bank for $55.0M or $148/SF.

Leasing Market Fundamentals

- Third quarter absorption of 158K square feet was driven by large move-ins from tech firms into Class A office space. Class A absorption in the third quarter was 428K square feet. Net absorption year-to-date was just under negative 246K square feet.
- Overall availability decreased by 90 basis points in the second quarter to 35.2%. Vacancy decreased 20 basis points to 30.3%.
- Average direct asking rents, now at $68.29/SF, increased by 0.5% quarter-over-quarter, ending 13 consecutive quarters of falling rents.
- Total leasing for each of the first three quarters totaled over 7.3M square feet, levels not seen since 2019, while demand was at its highest level since 1Q2020 at 8.6M square feet.

Outlook

- The emerging AI industry will continue to play a major role in San Francisco's office recovery. There is an increased appetite for high-quality, highly-amenitized, move-in ready spaces which tend to be well-located and well-maintained.
- Leasing volume through Q3 is on pace to surpass every year since 2019, meaning the city is seeing its healthiest leasing activity in several years. Indicators like more commuters using public transit during peak hours (BART exits up ~10% YoY) suggest more people are returning to offices. That supports demand for office space broadly.
- Sublease space has dropped to its lowest level since Q2 2020. Less sublease supply tends to reduce downward pressure on rents and signal improved tenant confidence.
- 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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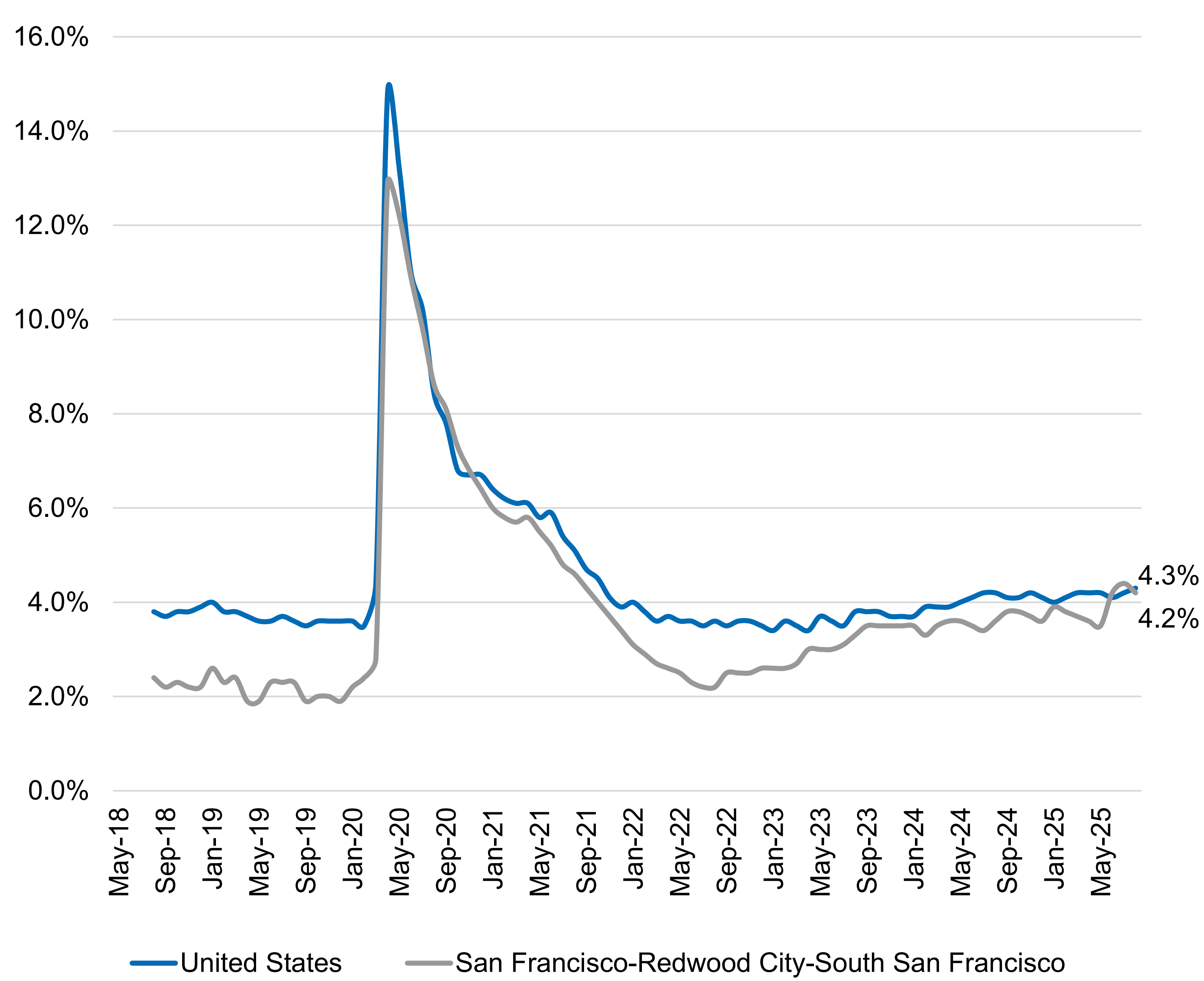
Economy

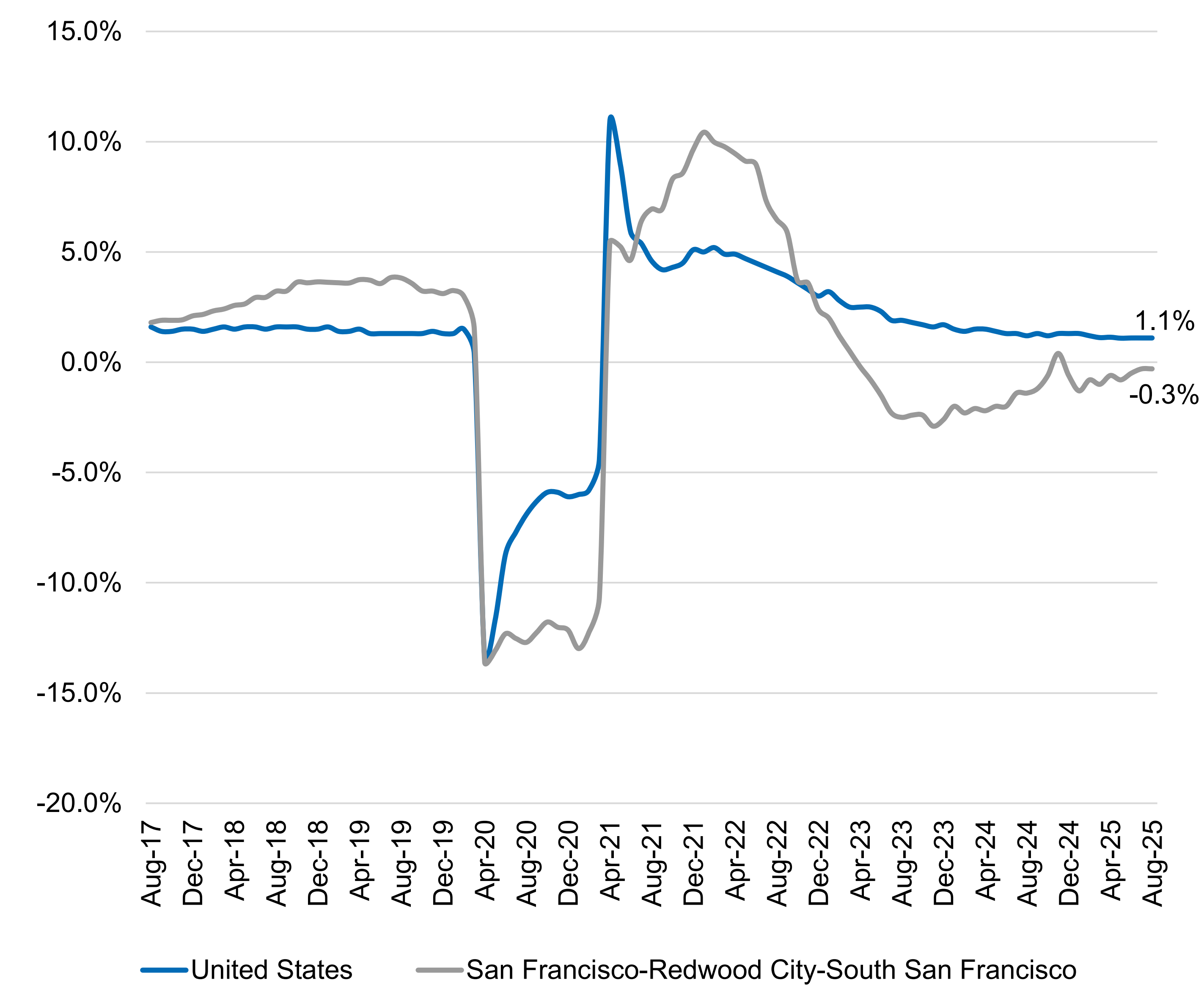
Regional Unemployment Remains Below National Level

While remaining 10 basis points below the national average, the unemployment rate increased to 4.2% as of the end of August after remaining sub-4.0% since October 2021. Year-over-year changes in nonfarm employment in the region have remained fairly steady in the negative over the last 2 years.

Unemployment Rate, Seasonally Adjusted



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

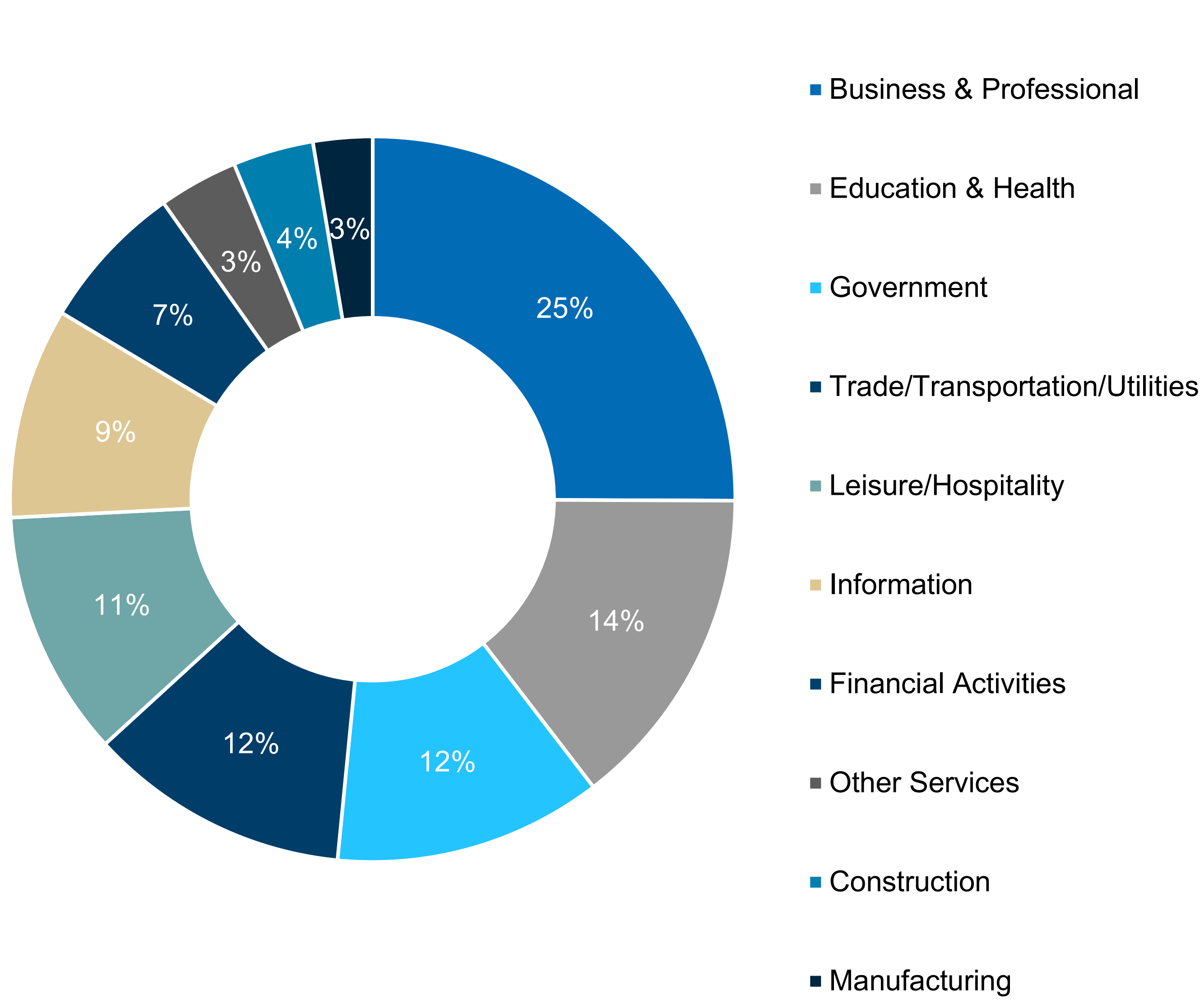


Source: U.S. Bureau of Labor Statistics, San Francisco-Redwood City-South San Francisco

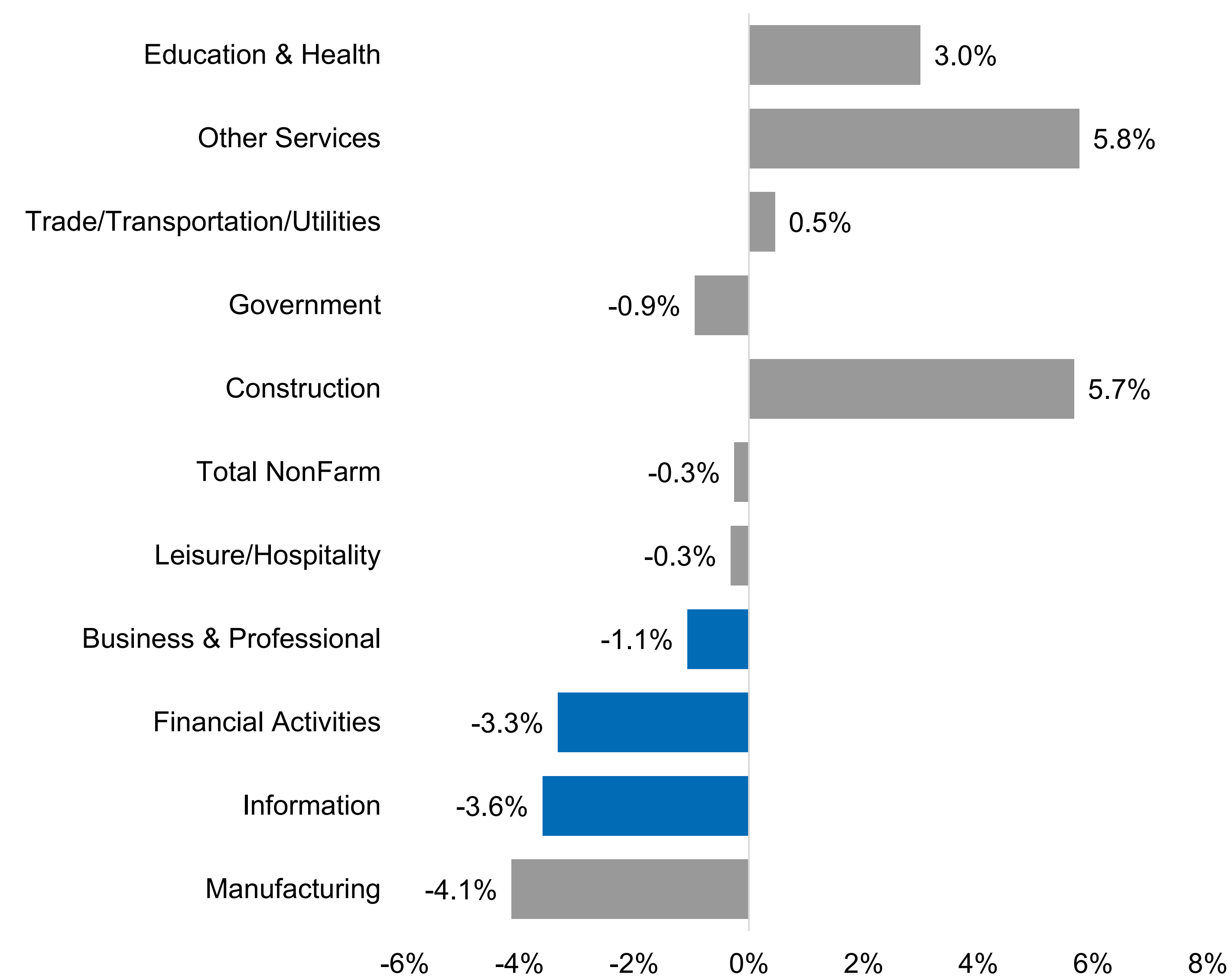
Office Using Employment Down 2.0% Year-Over-Year

All three of the office-using industries shrank in size over the last year, with a combined contraction of 2.0%, although the largest drop was in the information sector. Overall gains in the Education and Health, Other Services and Construction sectors did not make up for losses in other sectors, and regionally the area has about 2,300 fewer jobs than in August 2024.

Employment by Industry, August 2025



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

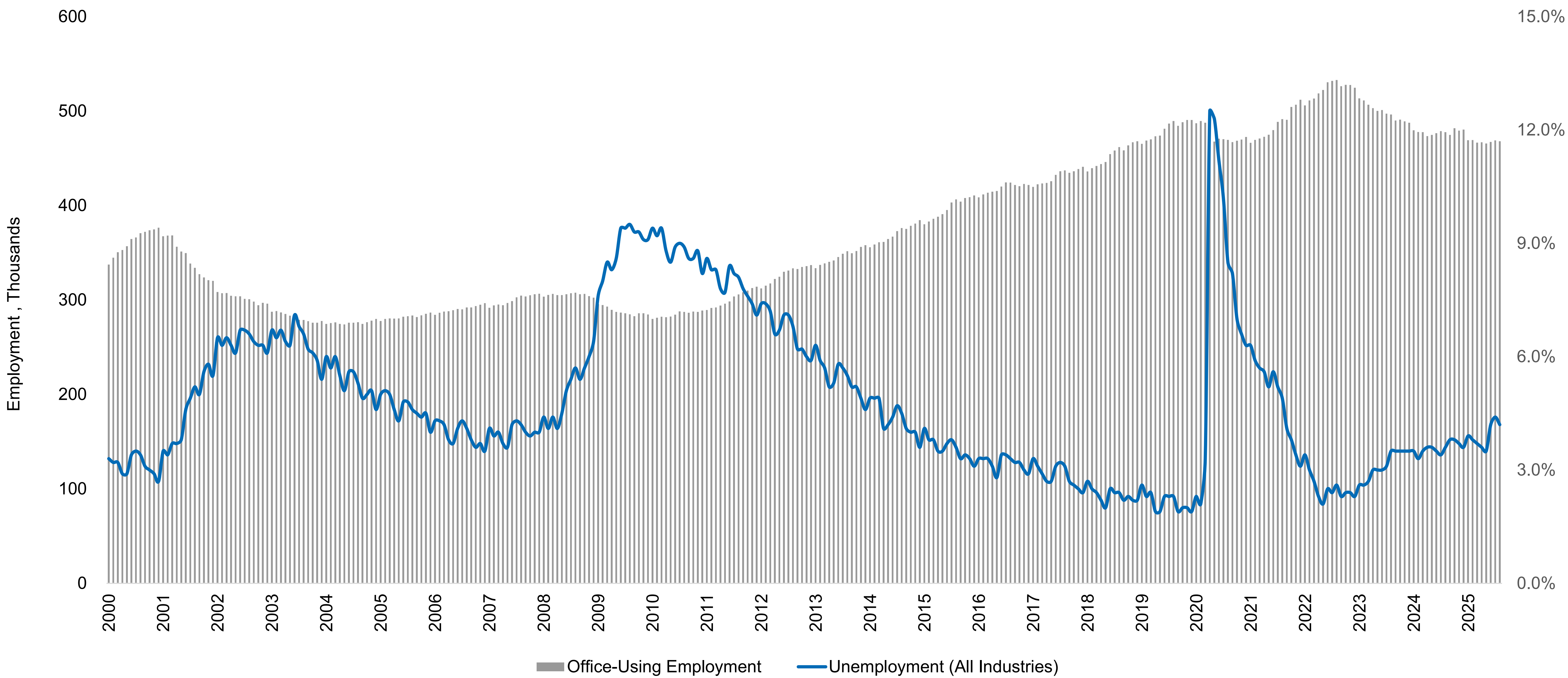


Source: U.S. Bureau of Labor Statistics, San Francisco-Redwood City-South San Francisco. Data is preliminary.

Unemployment Rate Below National Average

The overall unemployment rate of 4.2% remains below the national rate of 4.3%, but there has been an 12.3% decrease in office-using employment since the height of hiring in 2022. Despite the drop, overall office-using jobs in the region are equivalent to early 2019 totals.

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.

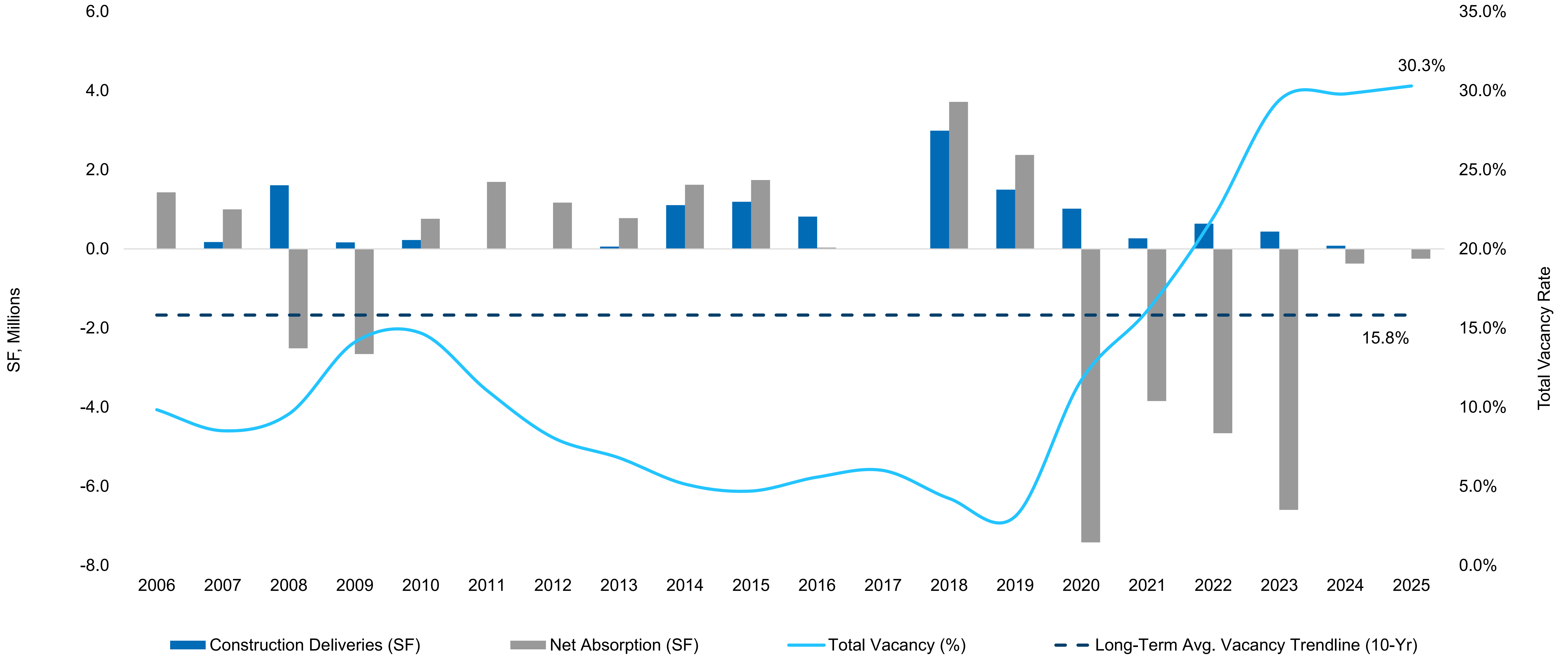
1Q25

Leasing Market Fundamentals

Incremental Increase in Vacancy

Third quarter absorption of positive 158,000 square feet was driven by an acceleration in leasing activity, especially larger transactions in Class A office space. Class A absorption in the third quarter was positive 428,000 square feet. Net absorption for the first half of 2025 was just over negative 246,000 square feet. AI/Technology tenant demand has shifted towards for high amenity, well-located, collaborative office settings. Overall availability decreased by 90 basis points in the third quarter and stands at 35.2%.

Historical Construction Deliveries, Net Absorption, and Vacancy

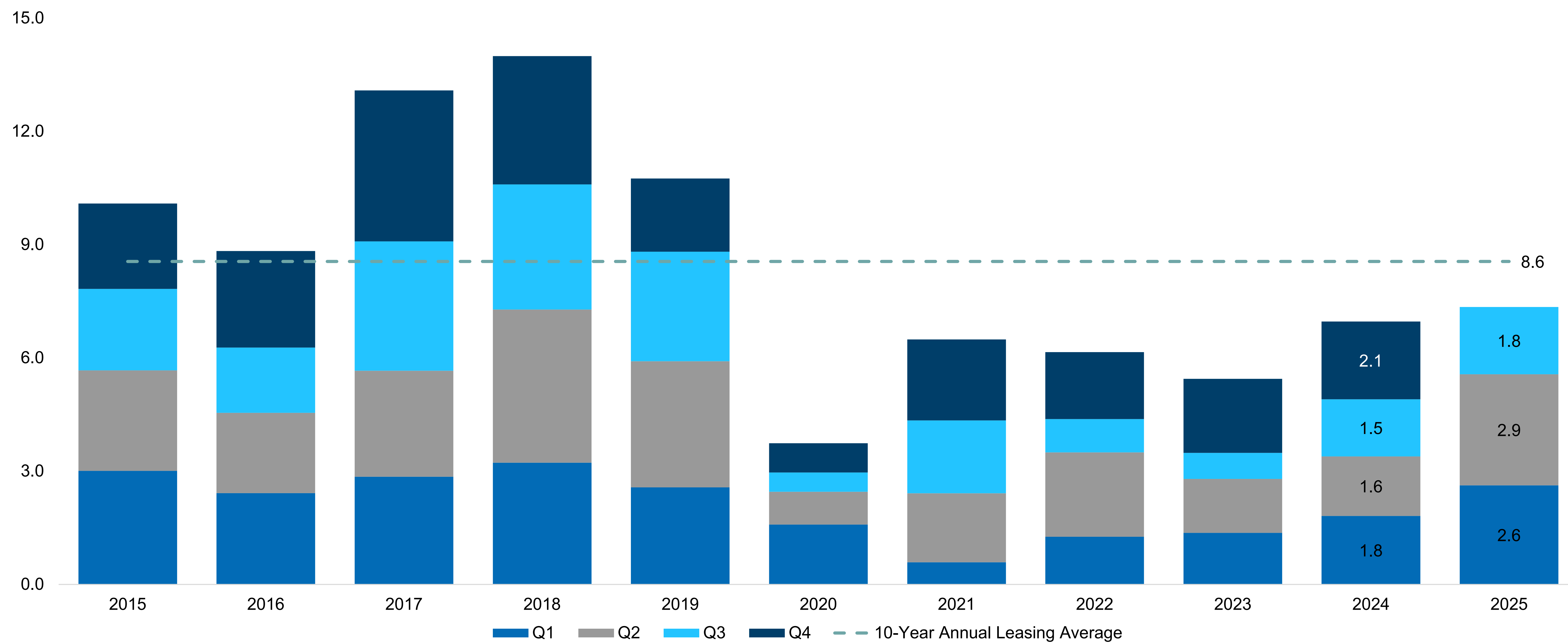


Source: Newmark Research, CoStar

Leasing Activity Back to Pre-Pandemic Levels

Year-to-date leasing activity had reached 7.3 MSF by the end of the third quarter, already surpassing total annual volumes from 2020-2024. Tenants leasing at new locations this quarter included Anthropic, which signed over 100K square feet, and Asana, which signed 55K square feet. Additionally, Docusign signed for an expansion and lease renewal close to 90K square feet (renewals are not included in leasing totals).

Total Leasing Activity (msf)

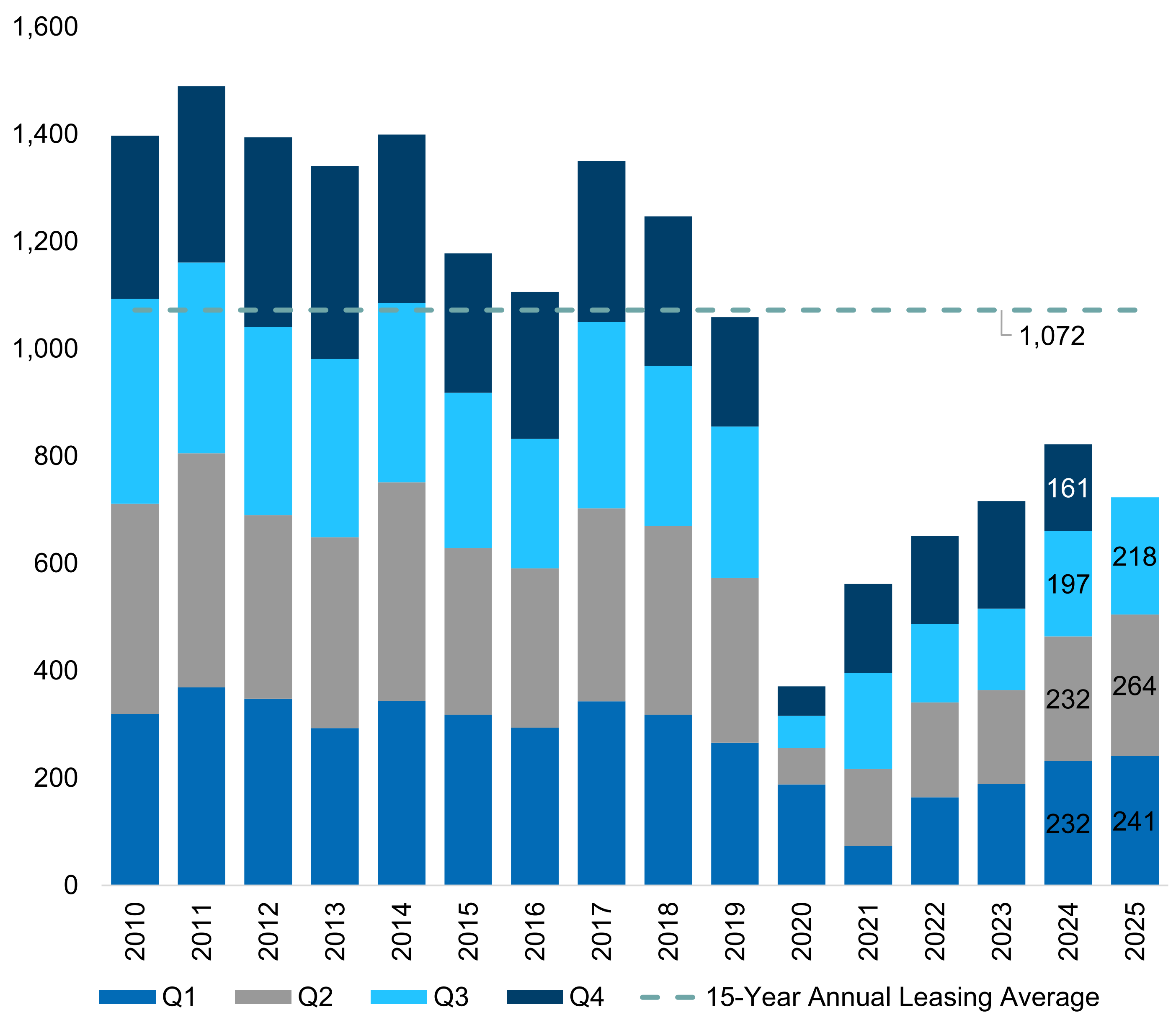


Source: Newmark Research, CoStar

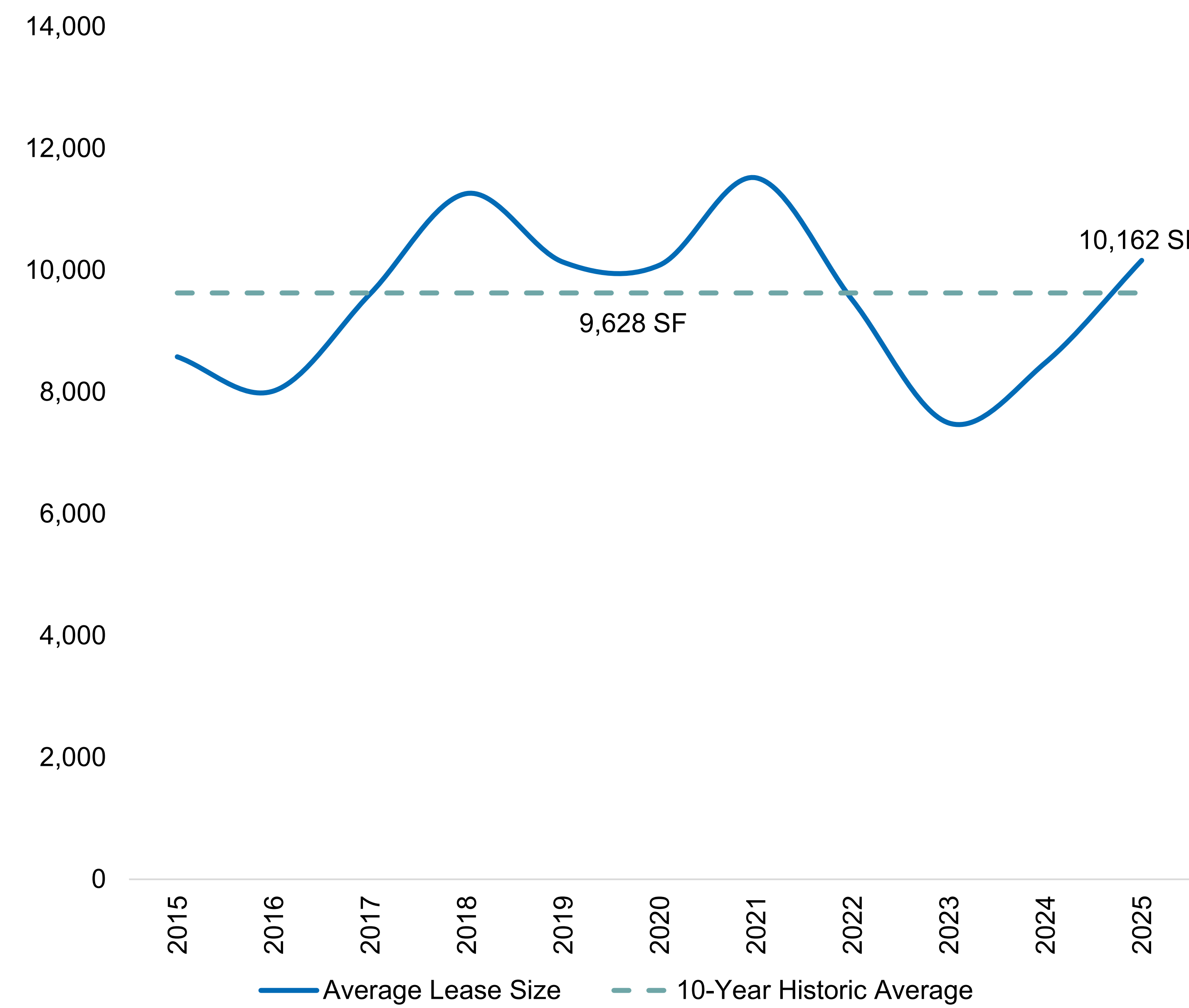
Leases Increased in Size and Frequency

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. Leases signed though the first three quarters has outpaced leasing activity for every year since 2019. Additionally, the average lease size in 2025 so far was 10,162 square feet, which is 5.6% larger than the 10-year historic average and an increase of 35.6% compared to average lease size in 2023.

Number of Leases Signed



Average Lease Size (sf)



Source: Newmark Research, CoStar

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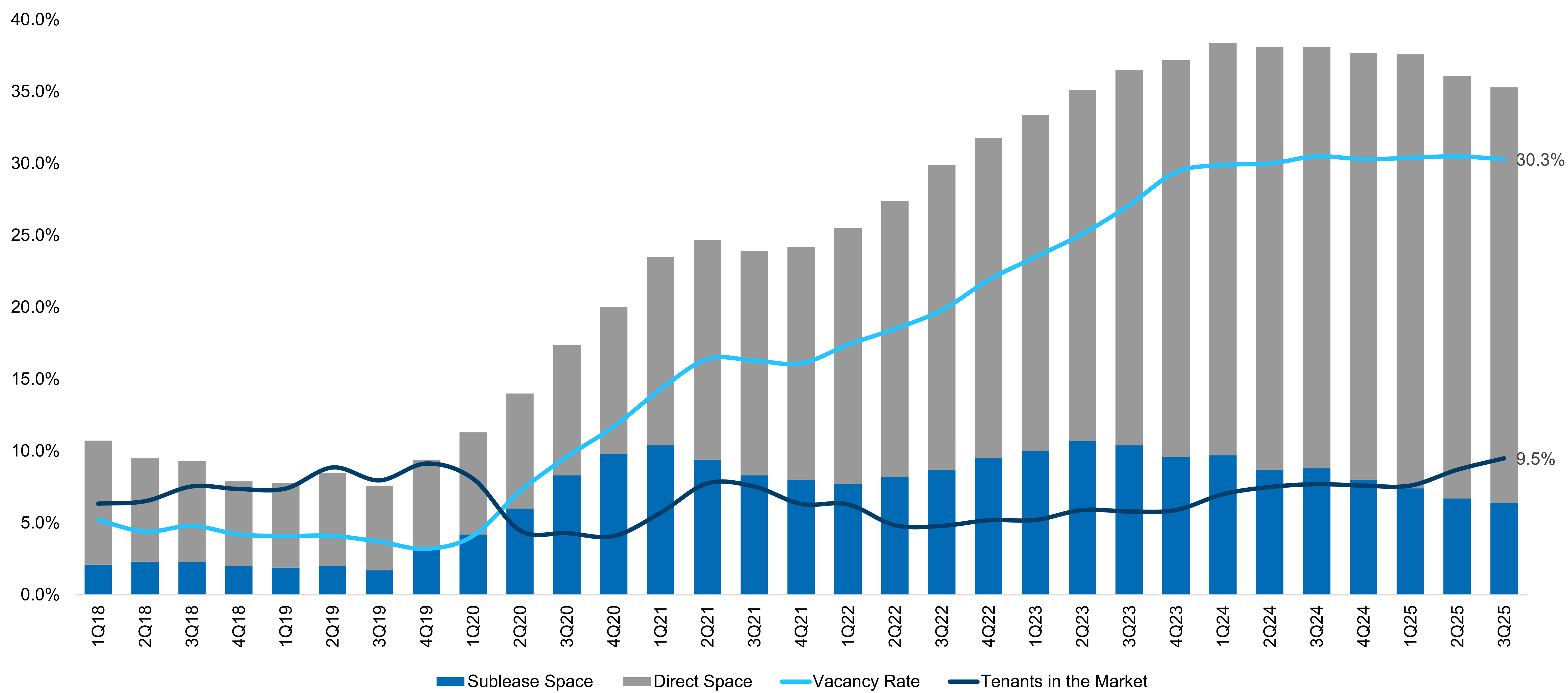
Increase in Tenant Demand as Sublease Space Continued to Decrease

Available sublease space has declined year-over-year from totaling 8.9% of the market to 6.3% of the market, while overall availability decreased 280 basis points during the same period to 35.2%. Vacancy has been vacillating between 30.1% and 30.4% over the past year, ending the third quarter at 30.3%, a decline of only 10 basis points year-over-year.

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



Source: Newmark Research, CoStar

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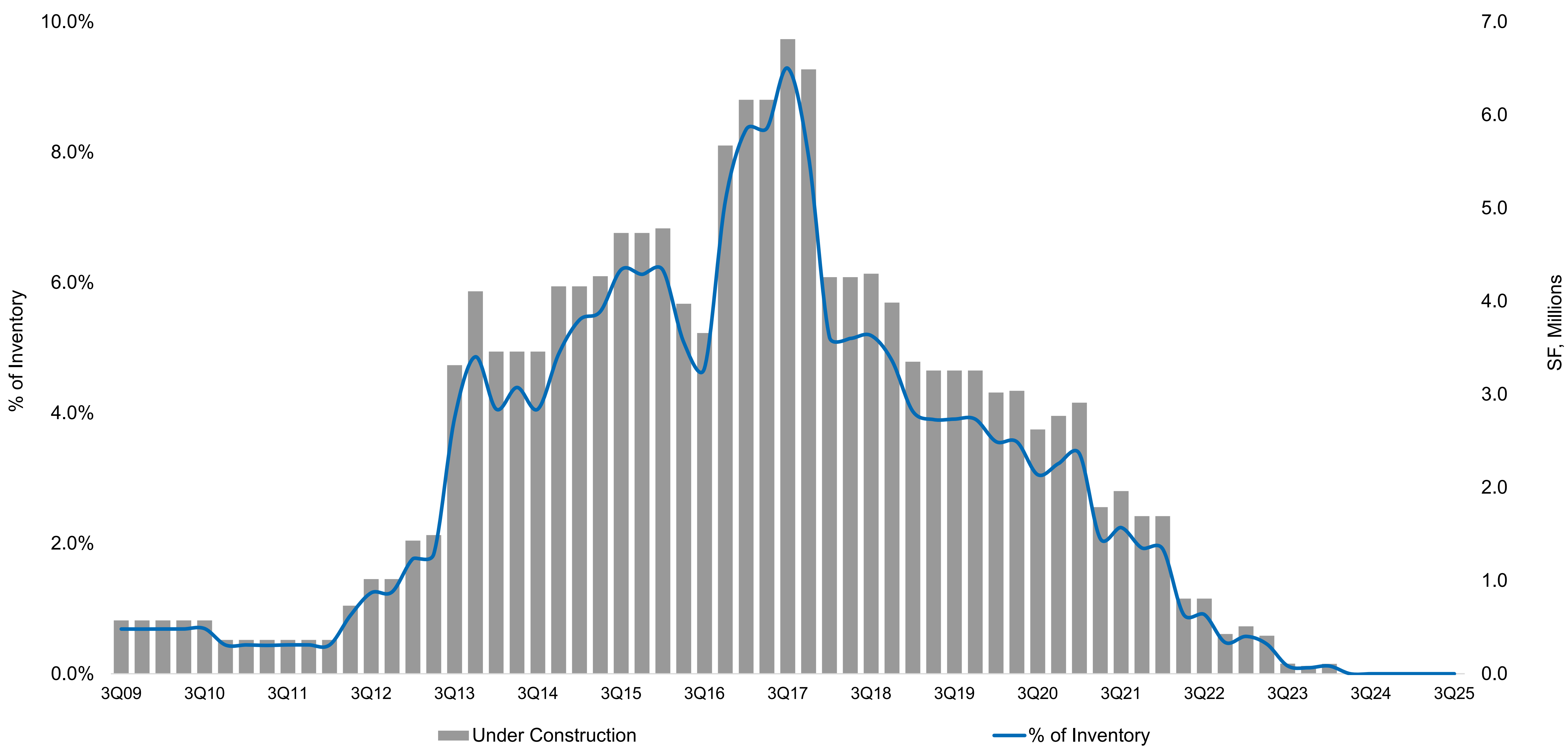
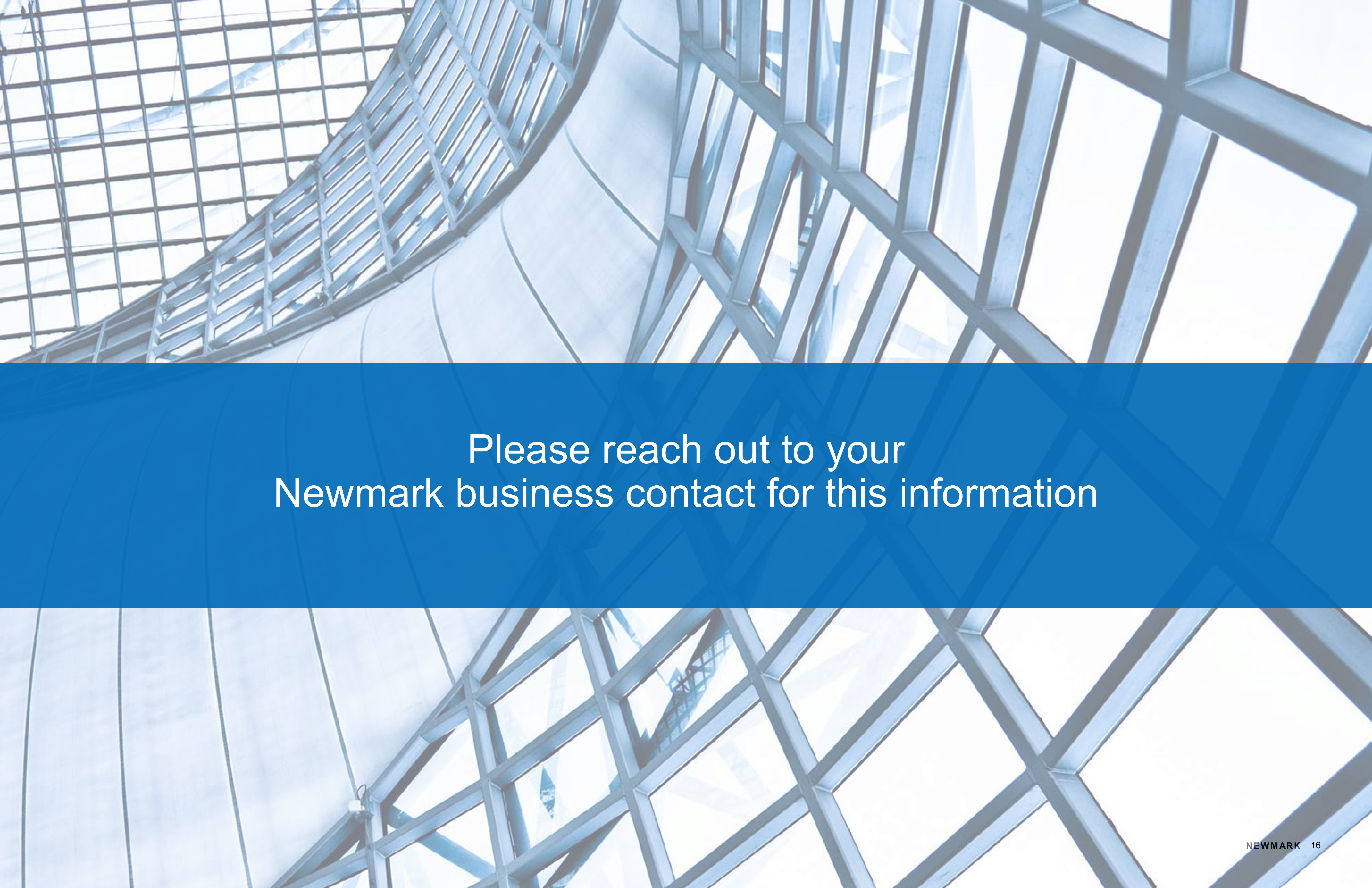
No New Office Development Under Construction in San Francisco

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

Office Under Construction and % of Inventory



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



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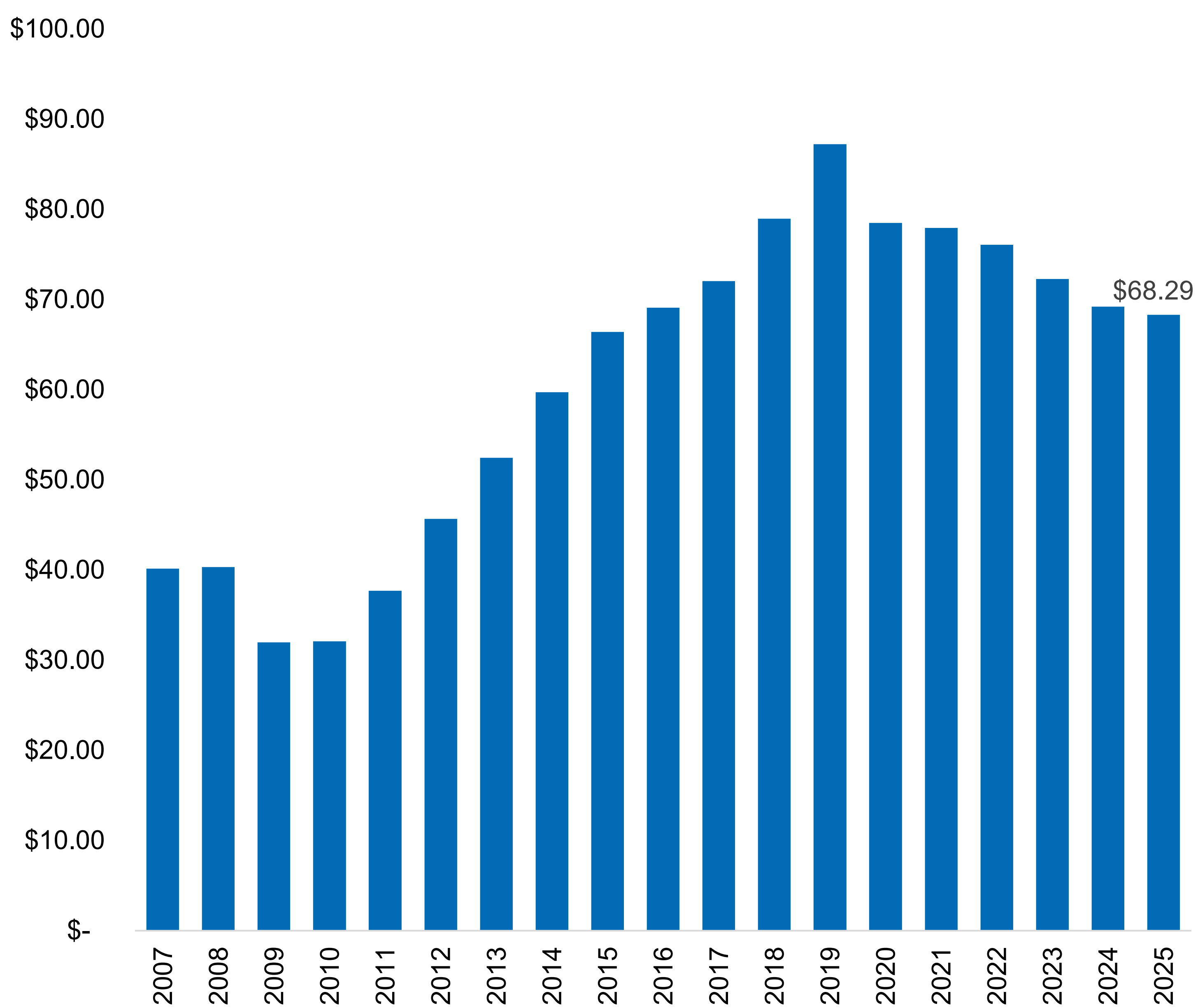
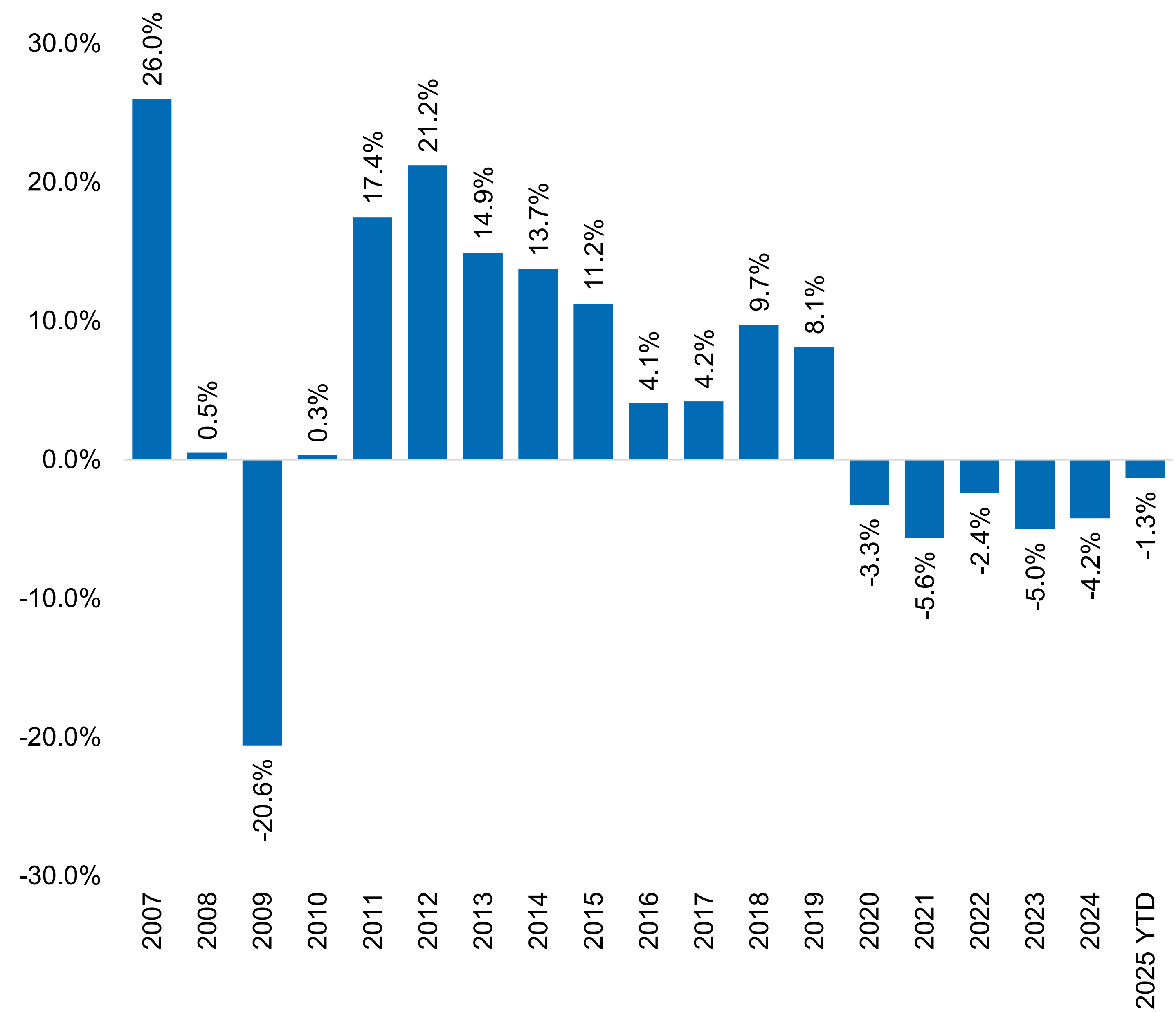
Decreases in Overall Market Rents Slowed

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 $68.29/SF at the end of the third quarter – a slight increase over the prior three quarters. Rents appear to be leveling-off and decreased by just 1.1% year-over-year.

Office Average Asking Rent, $/SF, FS



Year-Over-Year Asking Rent Growth Rate

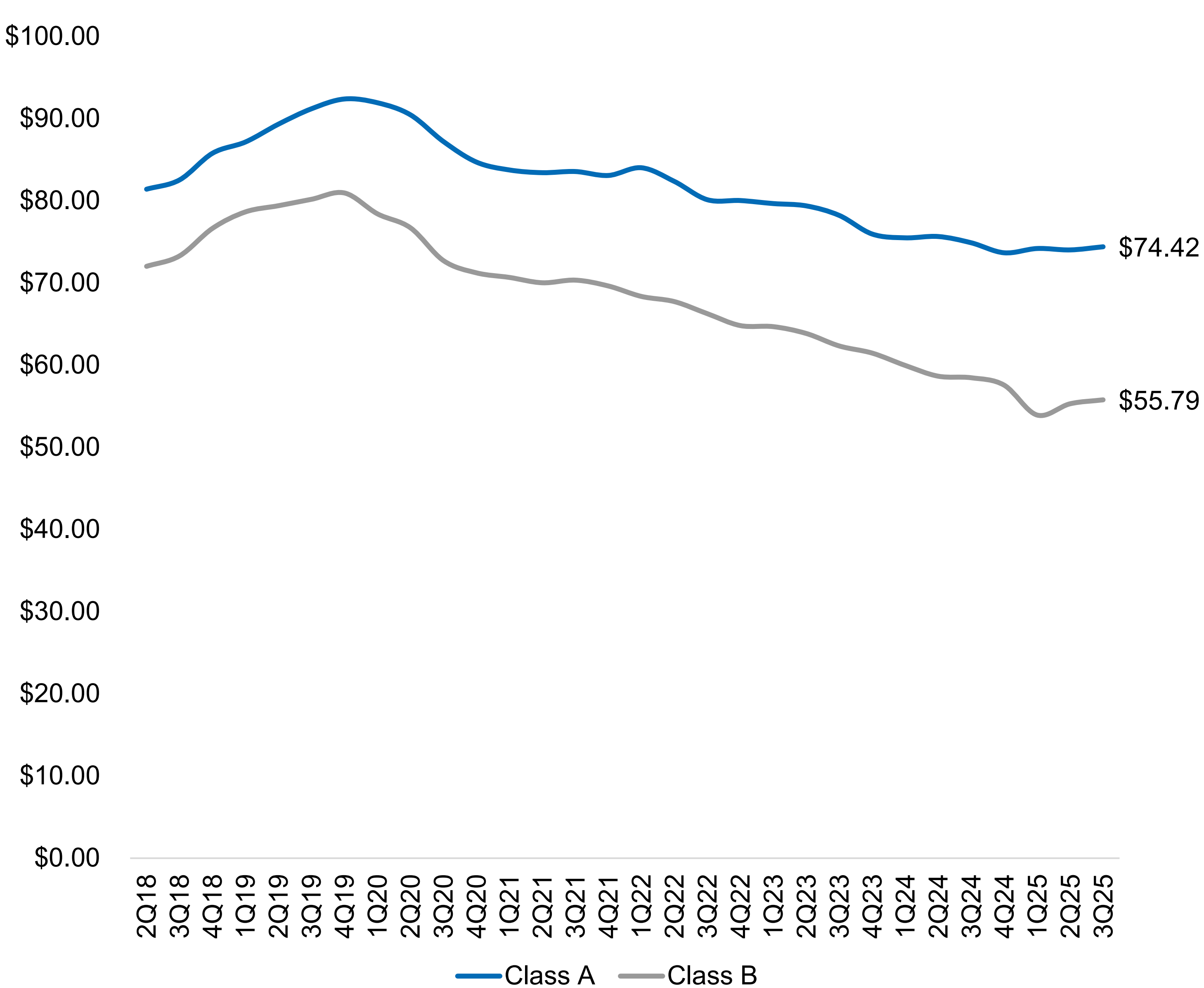


Source: Newmark Research, CoStar

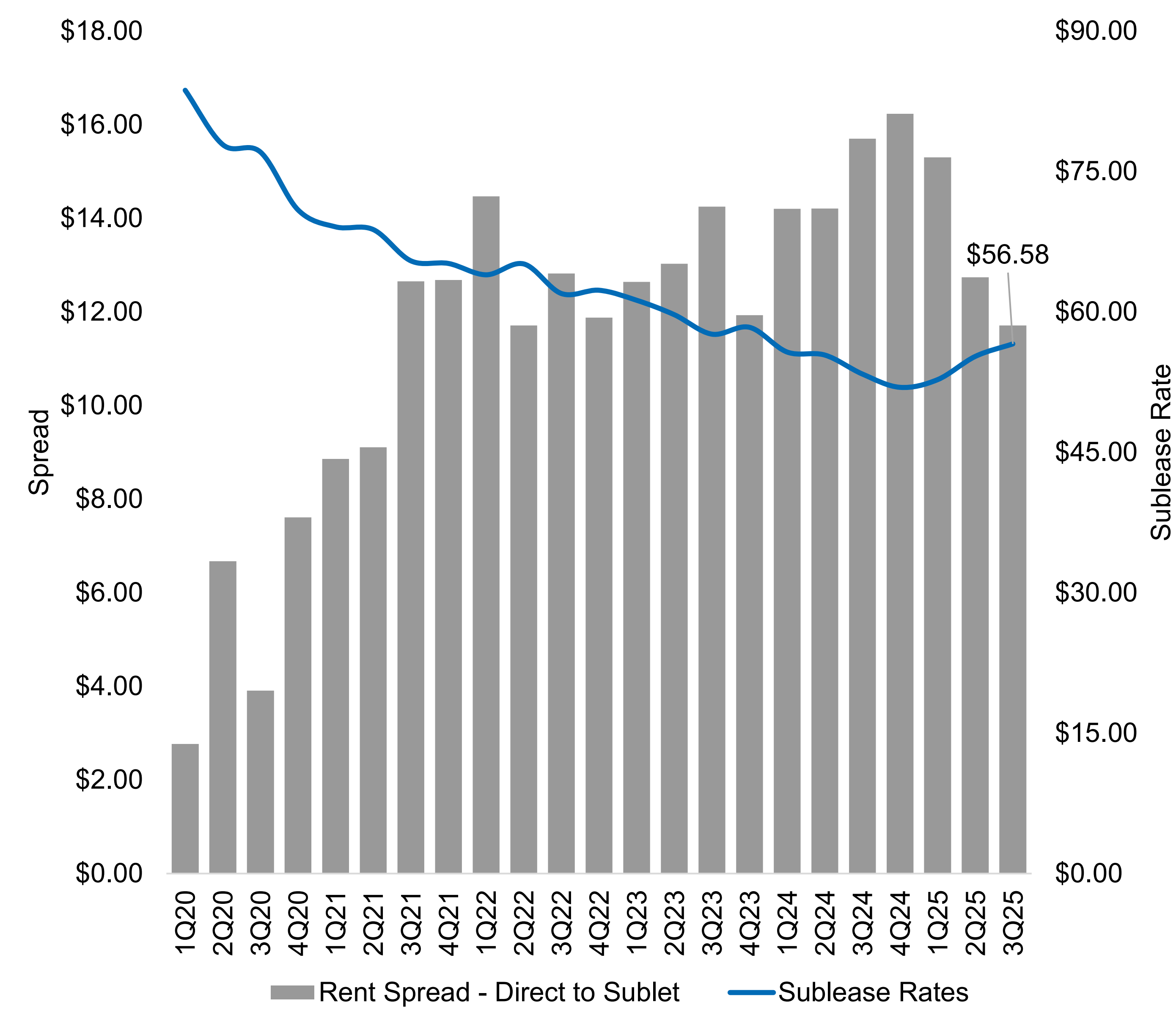
Sublease Asking Rents Continued to Stabilize

Although there was an increase in sublease rents in the third quarter, sublease asking rents have fallen 32.4% 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 $11.71/SF. Since the start of 2020, Class A asking rates have declined by 19.1%, while Class B rates have declined by 28.9%.

Class A and Class B Asking Rents



Sublease Asking Rates



Source: Newmark Research, CoStar

Leasing Activity

Third quarter leasing wasn't as robust as leasing in the prior three quarters, but remained elevated. Anthropic signed the only 100K+ sf deal at 505 Howard St. Other deals included subleases by Kikoff at 633 Folsom St, Asana's former space, and Motive at 1355 Market St, X's former space. Meanwhile, AI companies took advantage of tenant-friendly market dynamics and included leases by Vercel at 201 Mission St and Motive at 1355 Market St.

Notable 3Q25 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Anthropic	505 Howard St	Financial District South	Direct	104,345
DocuSign	221 Main St	Financial District South	Renewal	90,000
Kikoff	633 Folsom St	Rincon Hill	Sublet	55,668
Vercel	201 Mission St	Financial District South	Direct	44,000
Motive (KeepTruckin)	1355 Market St	Mid Market	Sublet	40,305
Nvidia	Mission Rock	Mission Bay	Direct	40,000
Swinerton	260 Townsend St	SOMA	Renewal	34,310
Mandolin	550 3rd St	SOMA	Direct	25,000
Forge Global	4 Embarcadero Center	Financial District North	Direct	25,000
CAI International	One Market Plz-Spear	Financial District North	Renewal	25,000

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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