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4Q24

# San Francisco Office Market Overview



**NEWMARK**

# Market Observations

## Economy

- The local unemployment rate has increased 150 basis points since May 2022 and increased marginally year-over-year from 3.5% to 3.6%. Overall office-using employment is down 1.9% year-over-year and 9.6% below a high in 2022.
- Other Services, Trade/Transportations/Utilities, and Education & Health were the sectors with the largest year-over-year increases in employment. Financial Activities was the only local office-using industry to increase employment year-over-year, growing by just 1.0%.
- Technology firms continued to adjust labor needs. Locally, the information sector was the office-using sector with the largest negative employment growth over the past 12 months declining by 6.2%.

## Major Transactions

- The two largest lease transactions during the fourth quarter were Airbnb's 250,903 square foot renewal at 888 Brannan Street and Lyft's 166,668 square foot renewal at 185 Berry Street. Despite heavy reductions in total footprint, the two San Francisco based tech companies remain committed to the City long-term.
- AI momentum continued as the third largest lease transaction during the quarter was Notion's 114,646 square foot lease at 685 Market Street. This marks the third quarter in a row, and fourth out of five, that an AI company has signed a new lease for over 100,000 SF.
- The largest sale by square footage during the quarter was Toda America's sale of 600 Townsend Street West to Lincoln Property for \$312/SF.

## Leasing Market Fundamentals

- Vacancy decreased quarter-over-quarter as net absorption for the fourth quarter of 2024 was positive 356,077 square feet. Annual Net Absorption, at negative 368,632 square feet, was the least negative since 2019 suggesting the start of a potential upturn for the San Francisco office market.
- Vacancy declined from 30.2% in the previous quarter to 29.8%. Similarly, availability decreased quarter-over-quarter from 38.6% to 38.0%. Average asking rents, now at \$68.17/SF, continued to drop quarter-over-quarter.
- Total leasing for the quarter totaled over 1.7 MSF, bringing the 2024 total to roughly 7.1 MSF. This was 58% higher than the total leasing in 2023. However, the annual total for 2024 remains over 20% below the ten-year annual average.

## 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. Per Pitchbook, San Francisco based AI companies received \$38.7 billion dollars in funding in 2024 - nearly 20% of all venture capital distributed in the United States.
- Commute recovery is showing signs of improvement. In October, both BART and Muni had their highest average ridership since prior to 2020.
- 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.

1. Economy
2. Leasing Market Fundamentals
3. Appendix / Tables

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4Q24

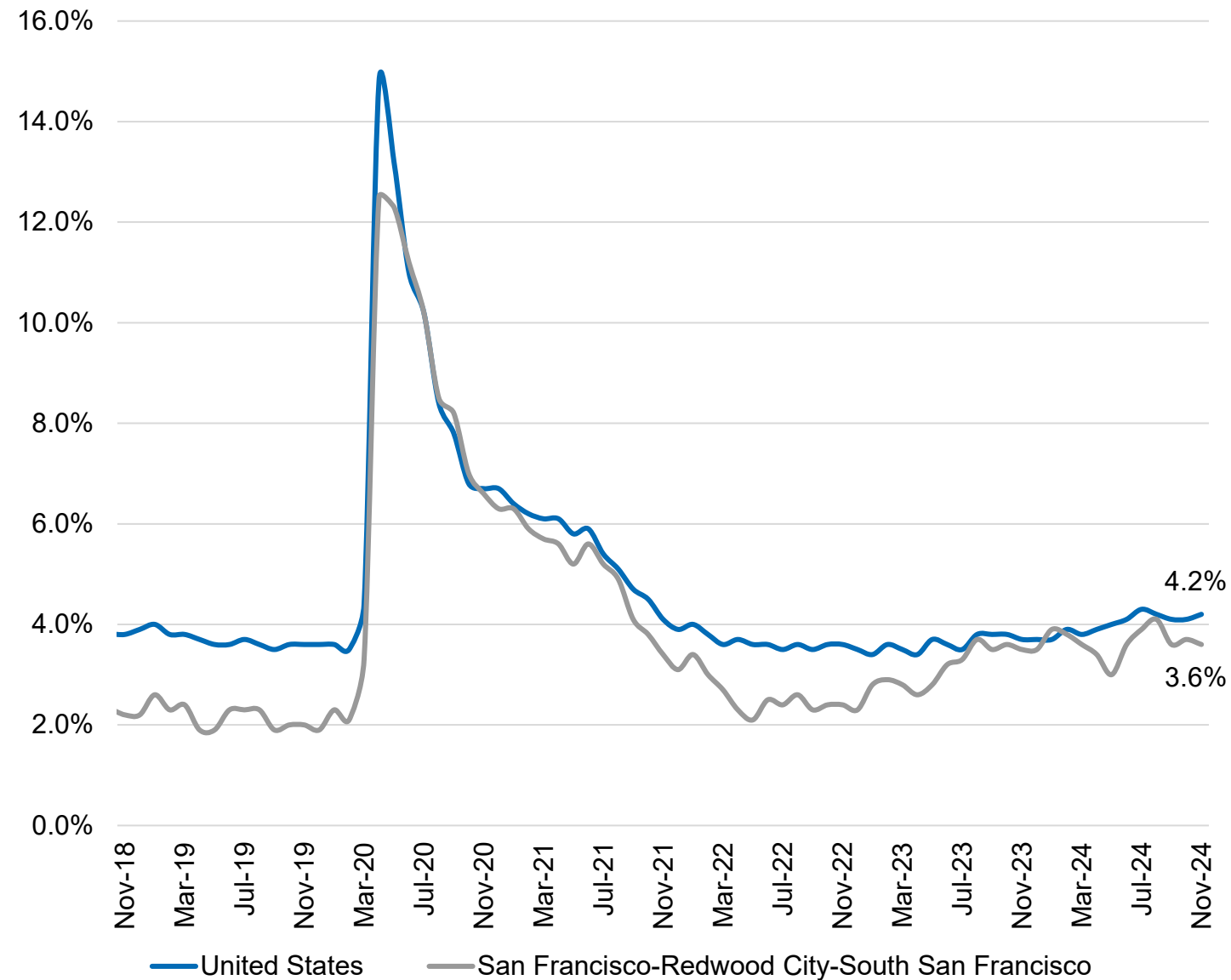
# Economy



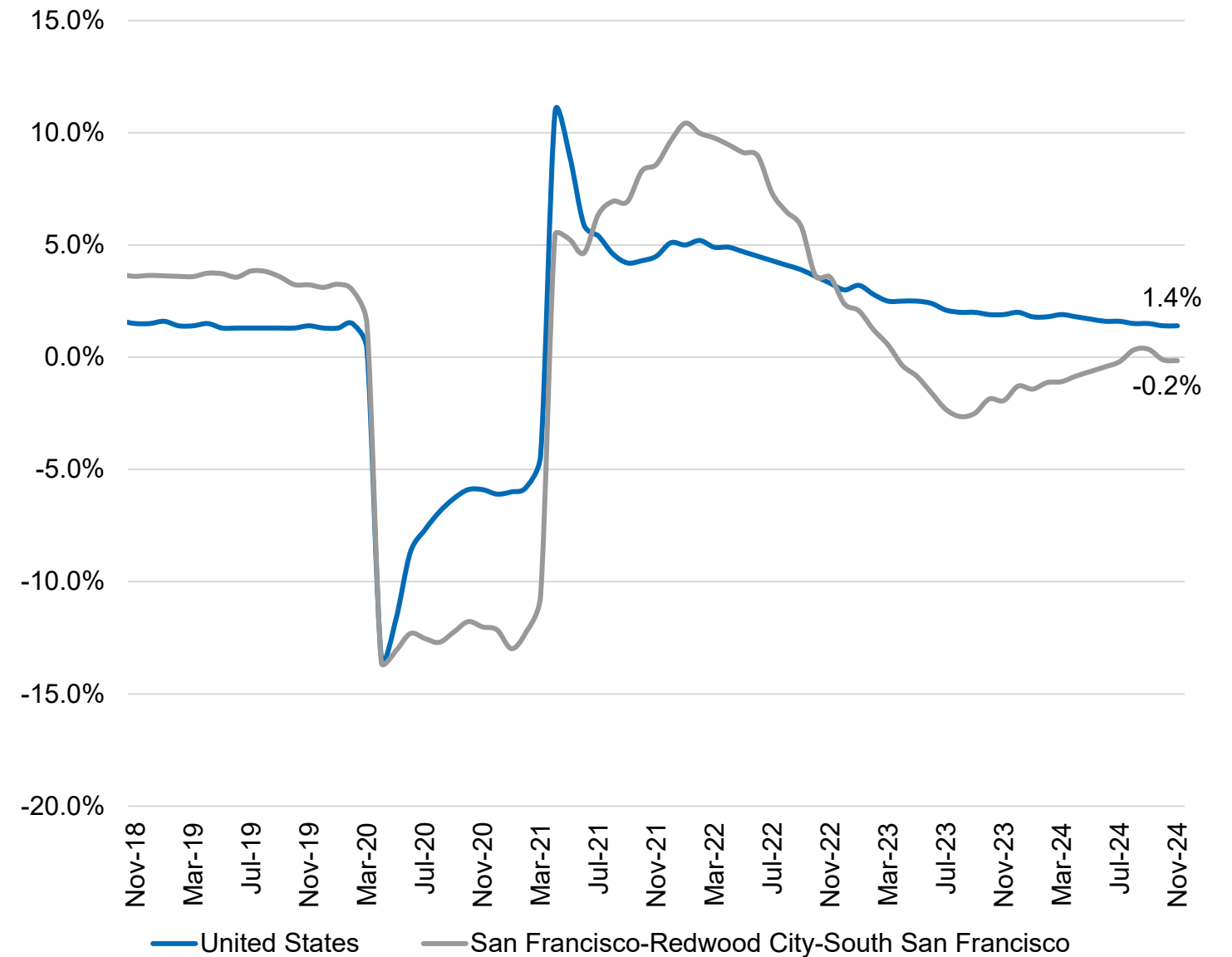
# Regional Unemployment Remains Below National Level

The region's unemployment rate, at 3.6%, declined by 50 basis points since August. Nonfarm employment in the region declined marginally while the growth nationally continued to slow. Total nonfarm employment in the region has declined by 2.5% since November 2022.

Unemployment Rate, Seasonally Adjusted



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

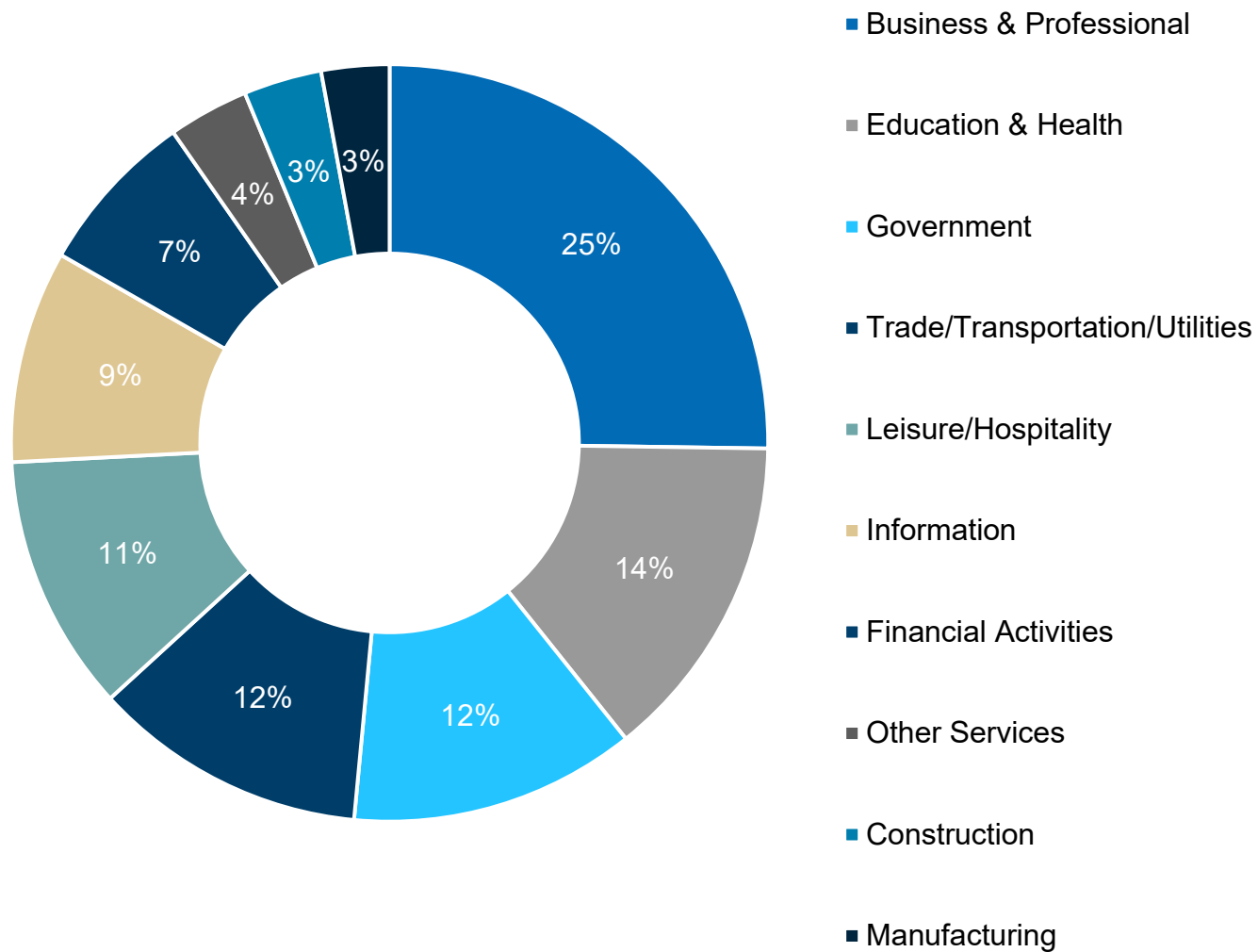


Source: U.S. Bureau of Labor Statistics and St. Louis FRED, San Francisco-Redwood City-South San Francisco, November Data is Preliminary

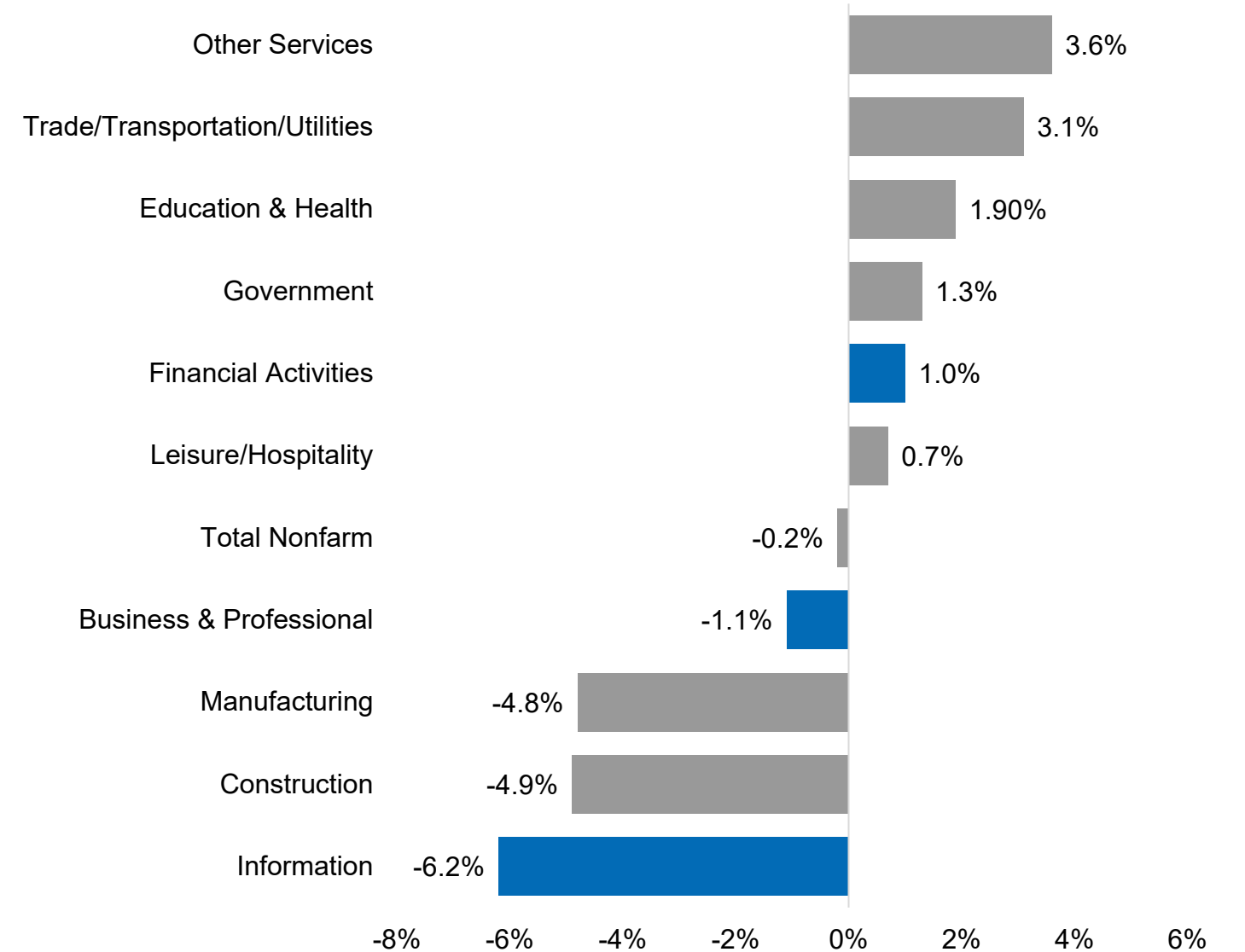
# Employment in Information Industry Down 6.2% Year-Over-Year

Other Services, Trade/Transportations/Utilities, and Education & Health were the sectors with the largest year-over-year increases in employment. Financial Activities was the only local office-using industry to increase year-over-year, growing by just 1.0%.

Employment by Industry, November 2024



Employment Growth by Industry, 12-Month % Change, November 2024

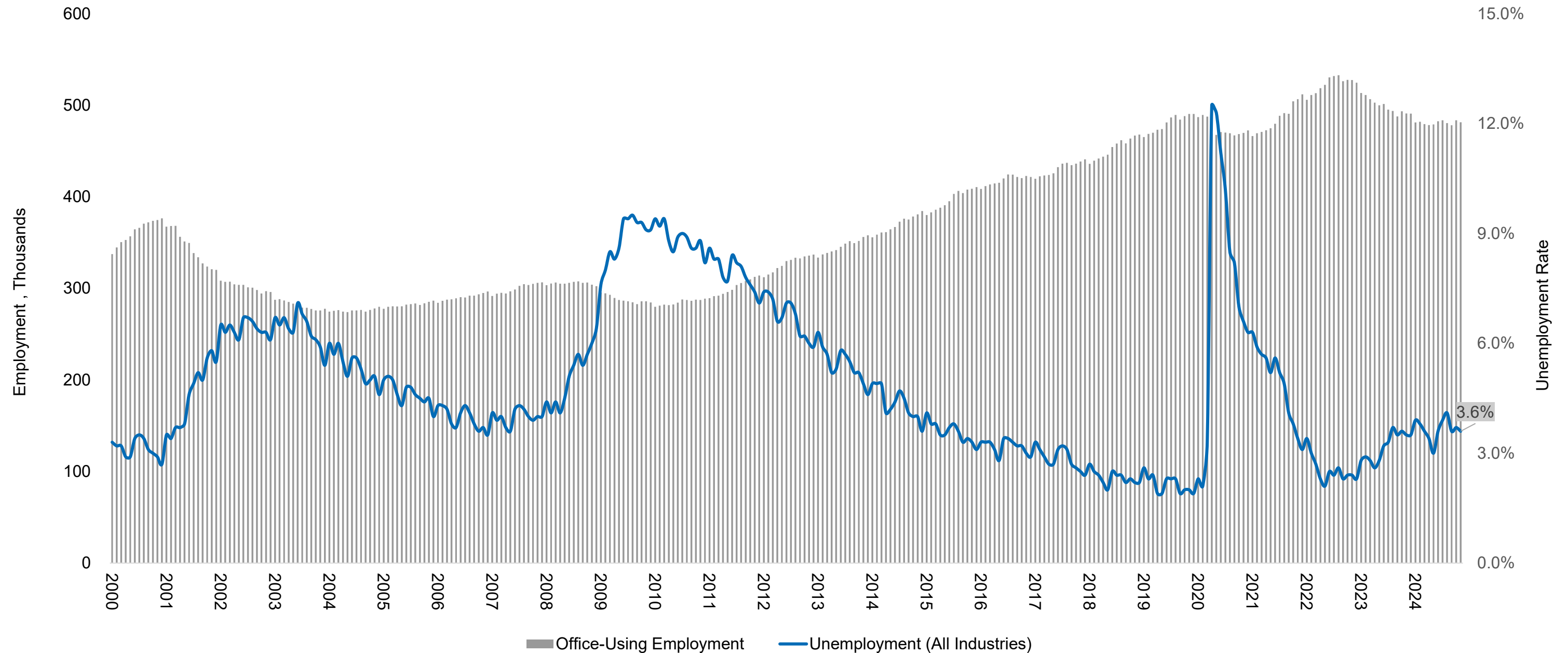


Source: U.S. Bureau of Labor Statistics, San Francisco-Redwood City-South San Francisco November Data is Preliminary

# Local Office-Using Employment Down Nearly 10% Since 2022

The local unemployment rate has increased 150 basis points since May 2022 as companies continue to rightsize. While overall office-using employment is down 1.9% year-over-year and 9.6% below a high in 2022, the total number of office-using employees is still higher now than at any point prior to mid-year 2019.

## 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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4Q24

# Leasing Market Fundamentals

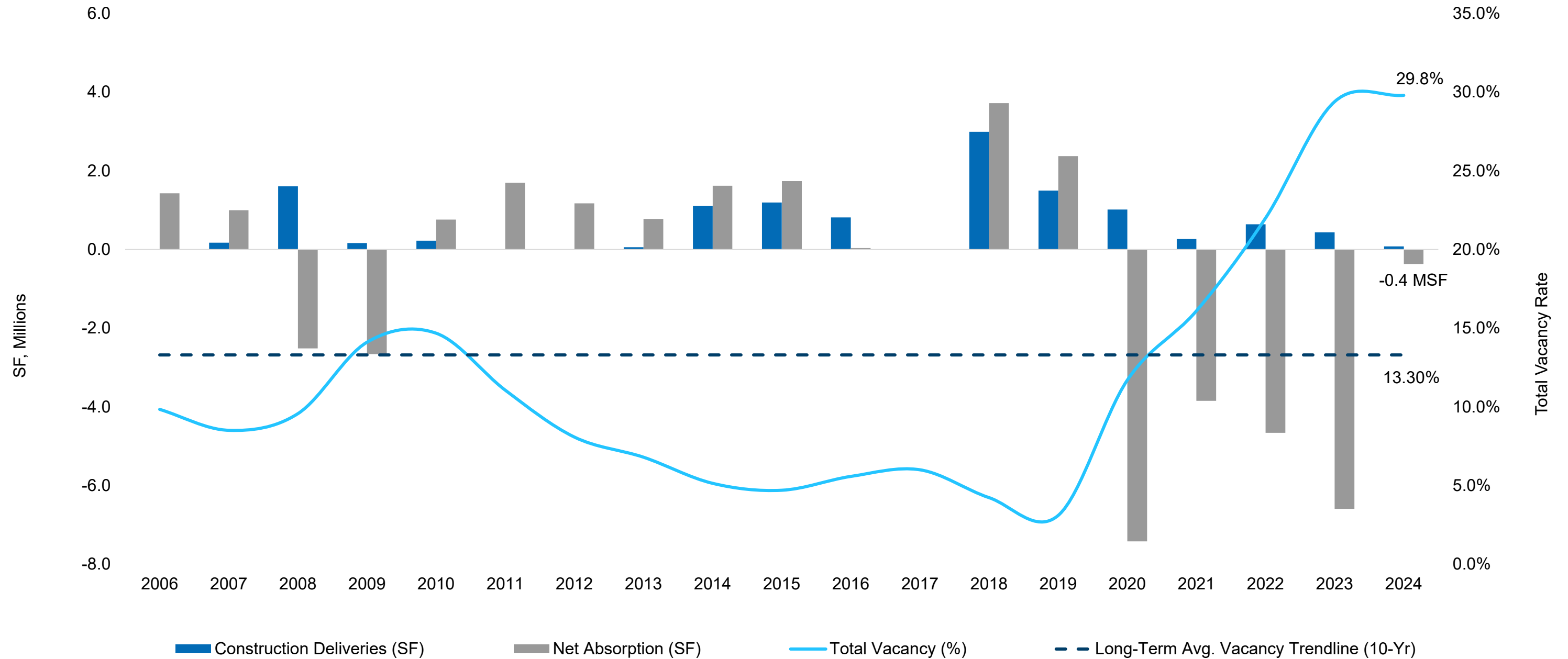




# Annual Net Absorption Bolstered by Positive Absorption in Q4

Vacancy decreased quarter-over-quarter as net absorption for the fourth quarter of 2024 was positive 356,077 square feet. Major contributors to the positive absorption included Notion's 104,000 square foot lease at 685 Market Street and The Warriors 70,000 square foot lease at Mission Rock. Annual Net Absorption was the least negative since 2019 suggesting the start of a potential upturn for the San Francisco office market.

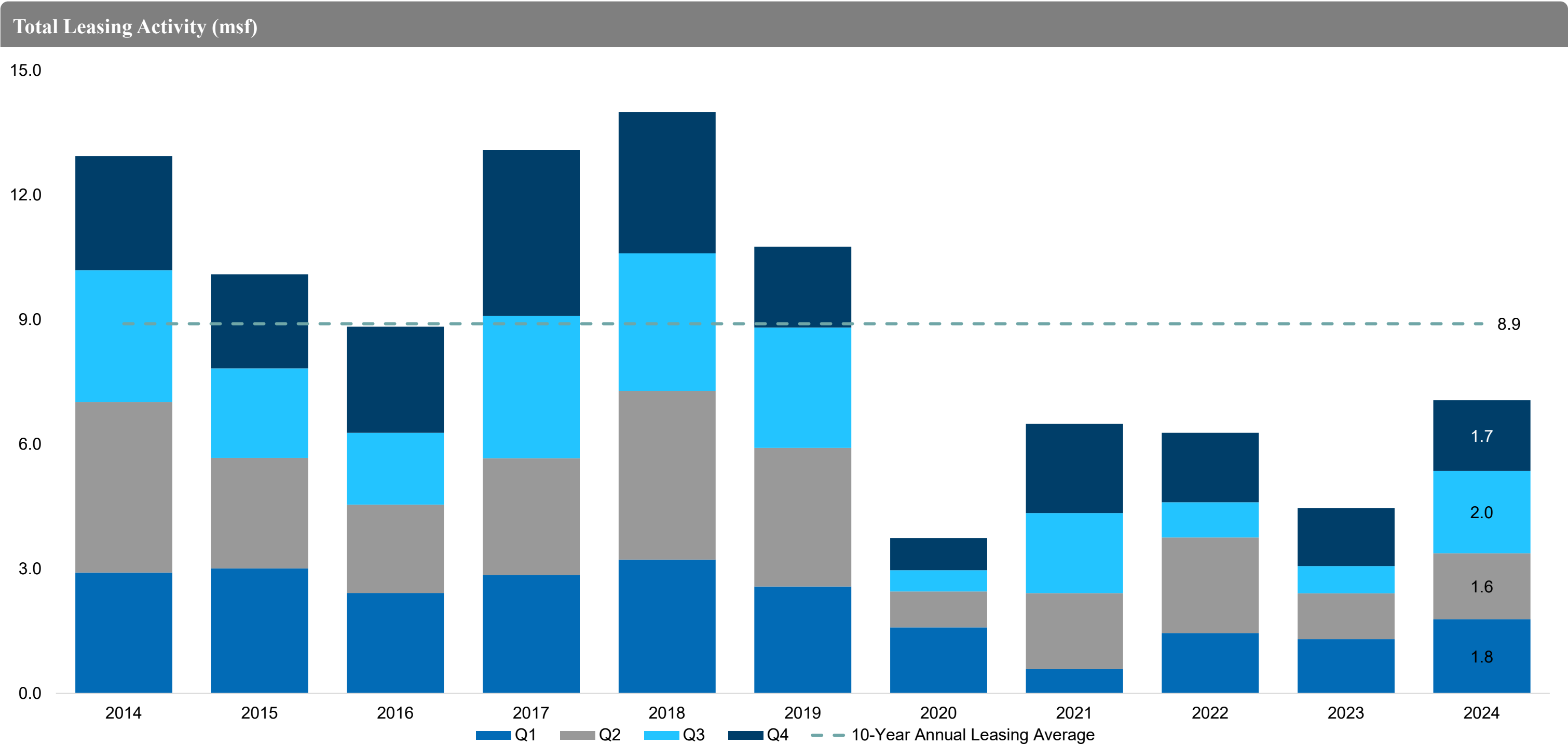
## Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research, CoStar

# Leasing Activity in 2024 Reached Its Highest Level Since 2019

Total leasing for the quarter totaled over 1.7 MSF, bringing the 2024 total to roughly 7.1 MSF. This was 58% higher than the total leasing in 2023. However, the annual total for 2024 remains roughly 21% below the ten-year annual average.



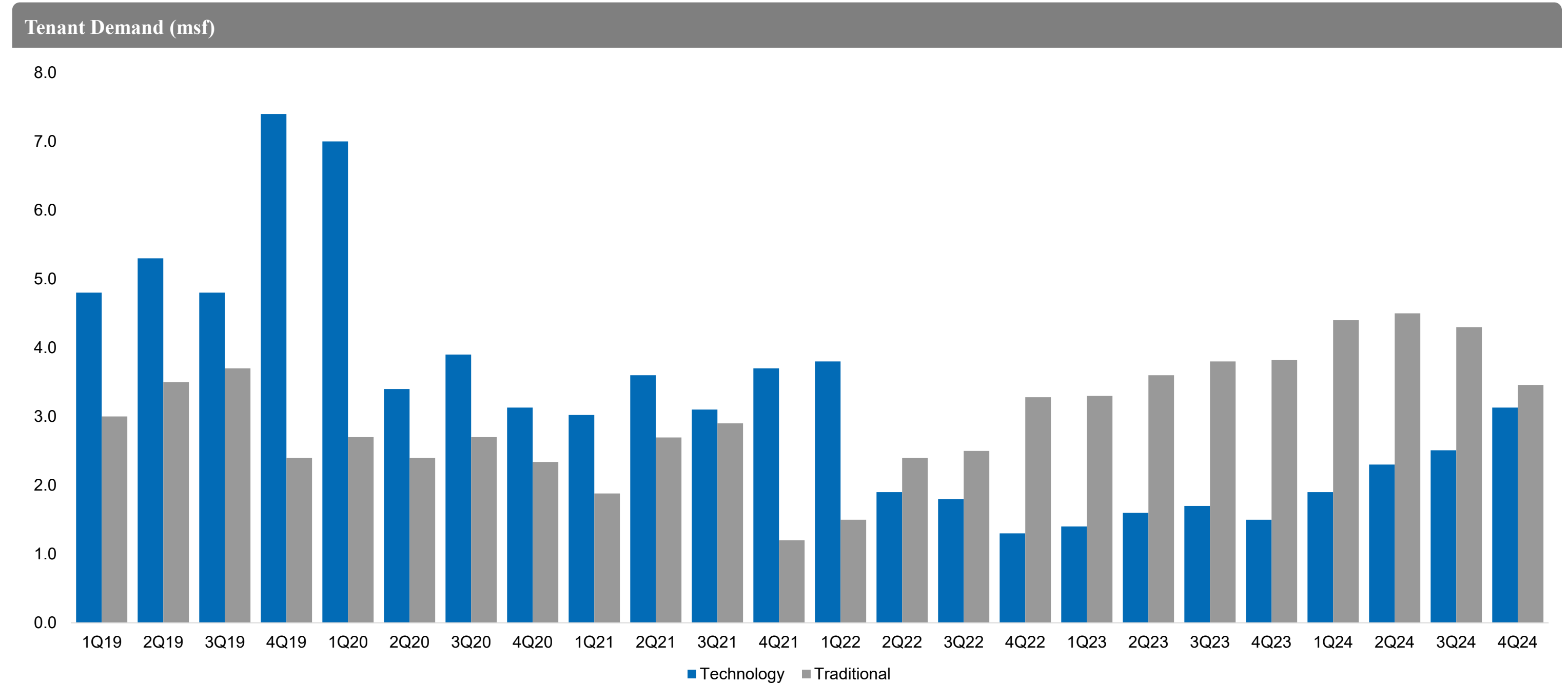
Source: Newmark Research, CoStar



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# Demand from Tech Companies at Highest Level Since Early 2022

The balance of tech and traditional tenants has flipped compared to pre-pandemic. Traditional tenant demand remained high despite a decline quarter-over-quarter. Demand from technology companies has increased the past four quarters in a row 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.



Source: Newmark Research

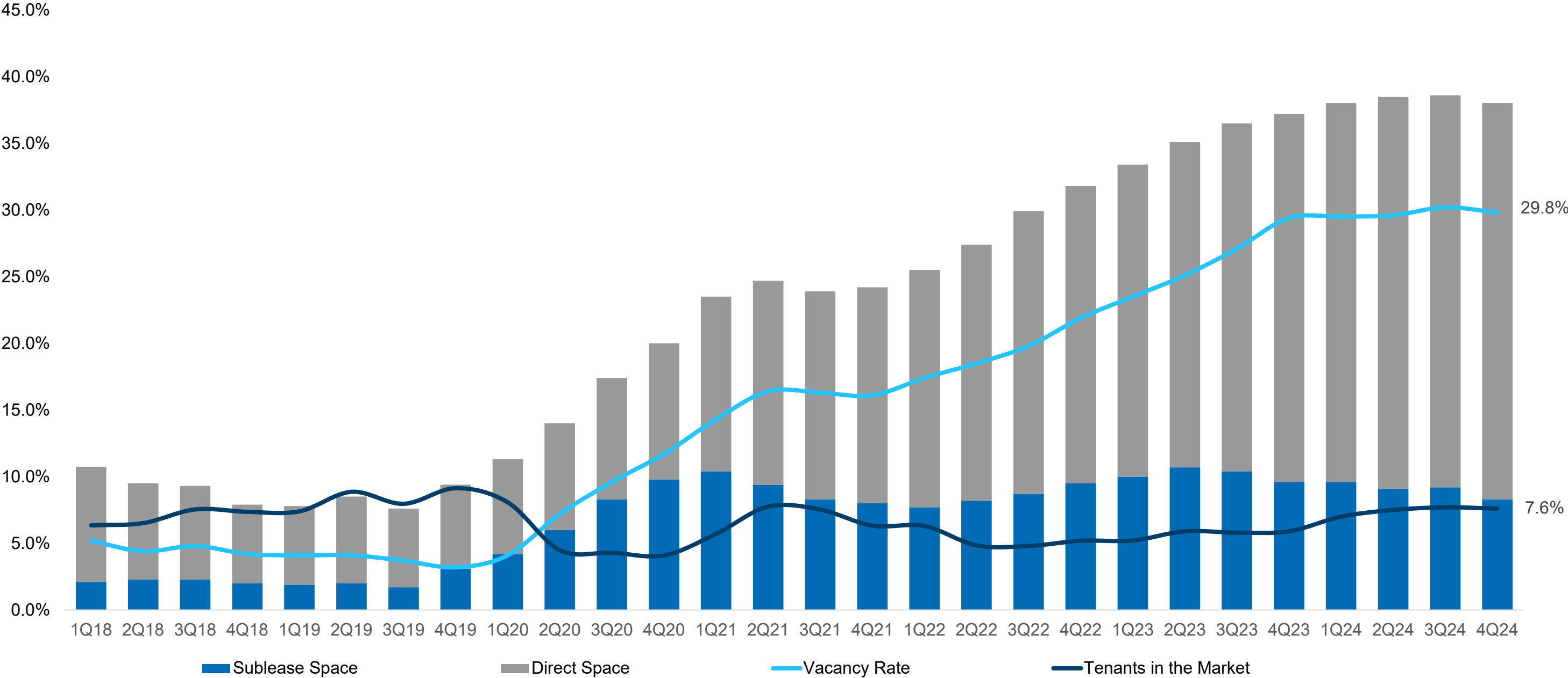


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# Vacancy and Availability Declined Quarter-Over-Quarter

In addition to decreased vacancy and availability, available sublease space reached its lowest level since the second quarter of 2022. Tenant demand has been consistent for several months and remained at one of the highest levels since 2020 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

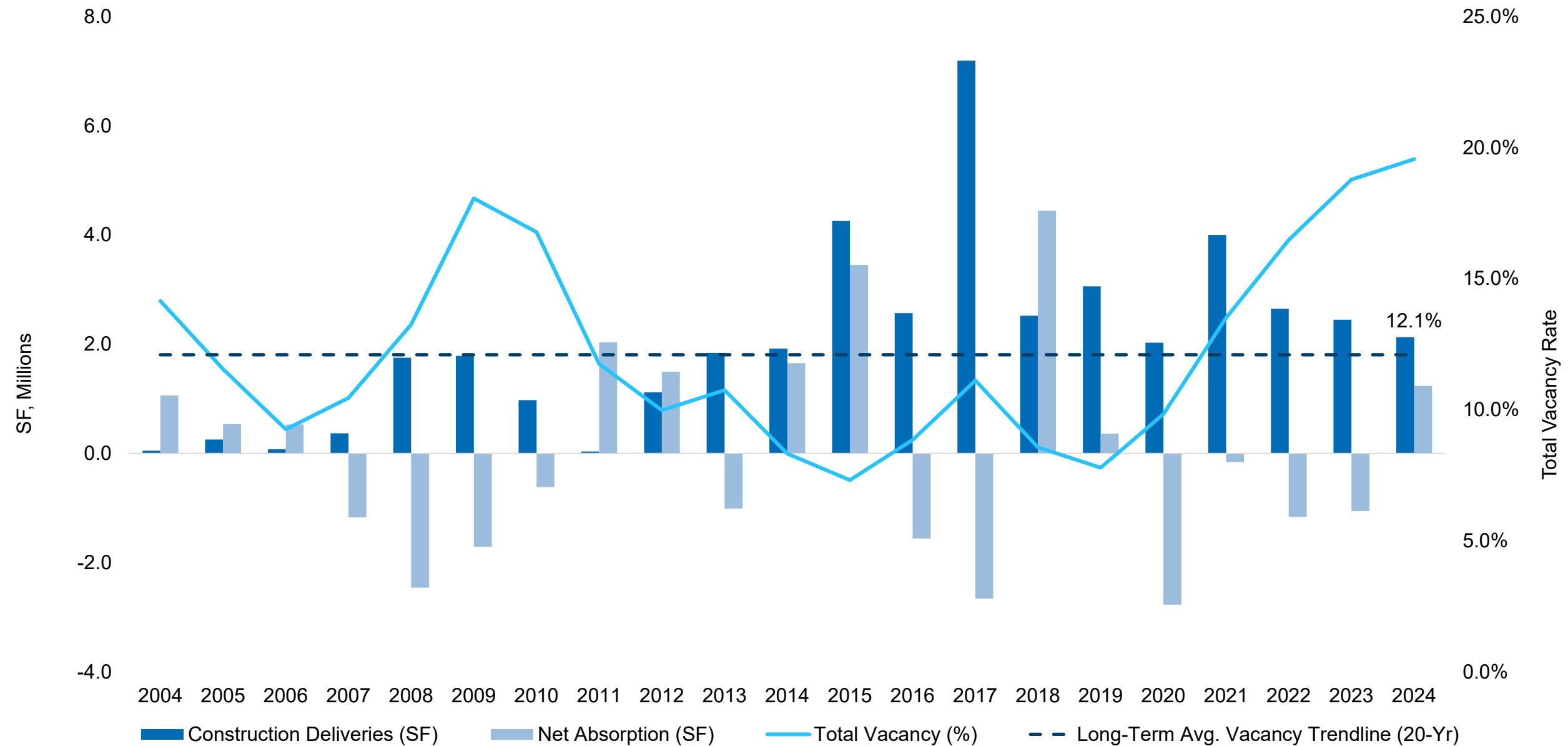


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# Office Market Trends Towards Stabilization from Last Quarter

The Silicon Valley market showed signs of recovery in the fourth quarter of 2024, with positive net absorption of 1.1 MSF, reversing the previous quarter's negative net absorption of -485K sf. This improvement, alongside a quarter-over-quarter vacancy rate decrease from 20.1% to 19.5%, signals that market stabilization is gaining momentum. While vacancy remains elevated compared to the long-term average of 12.1%, the shift to positive absorption suggests tenants are beginning to return to the market after recent volatility.

## Historical Construction Deliveries, Net Absorption, and Vacancy



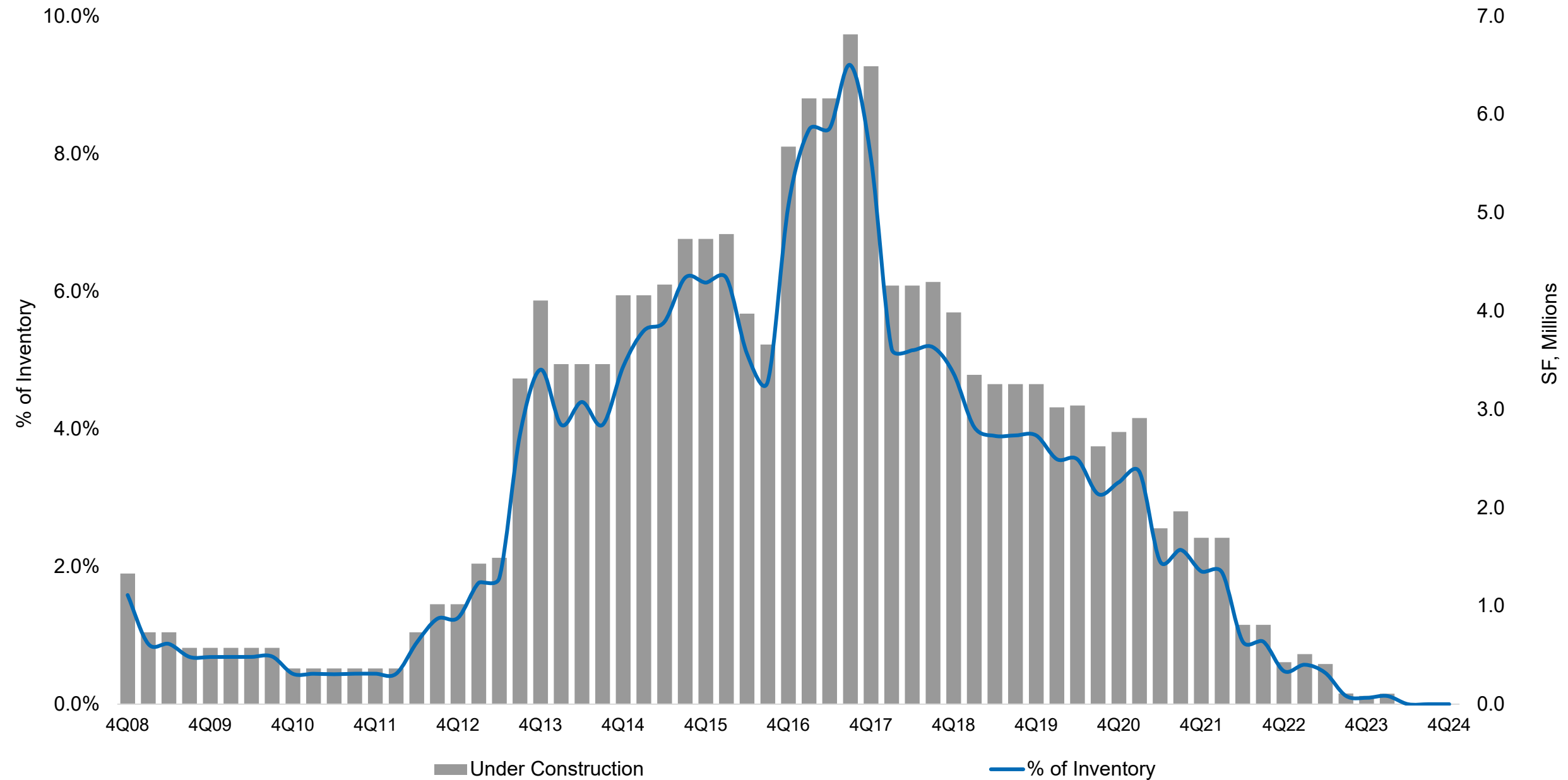
Source: Newmark Research



# 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 three 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

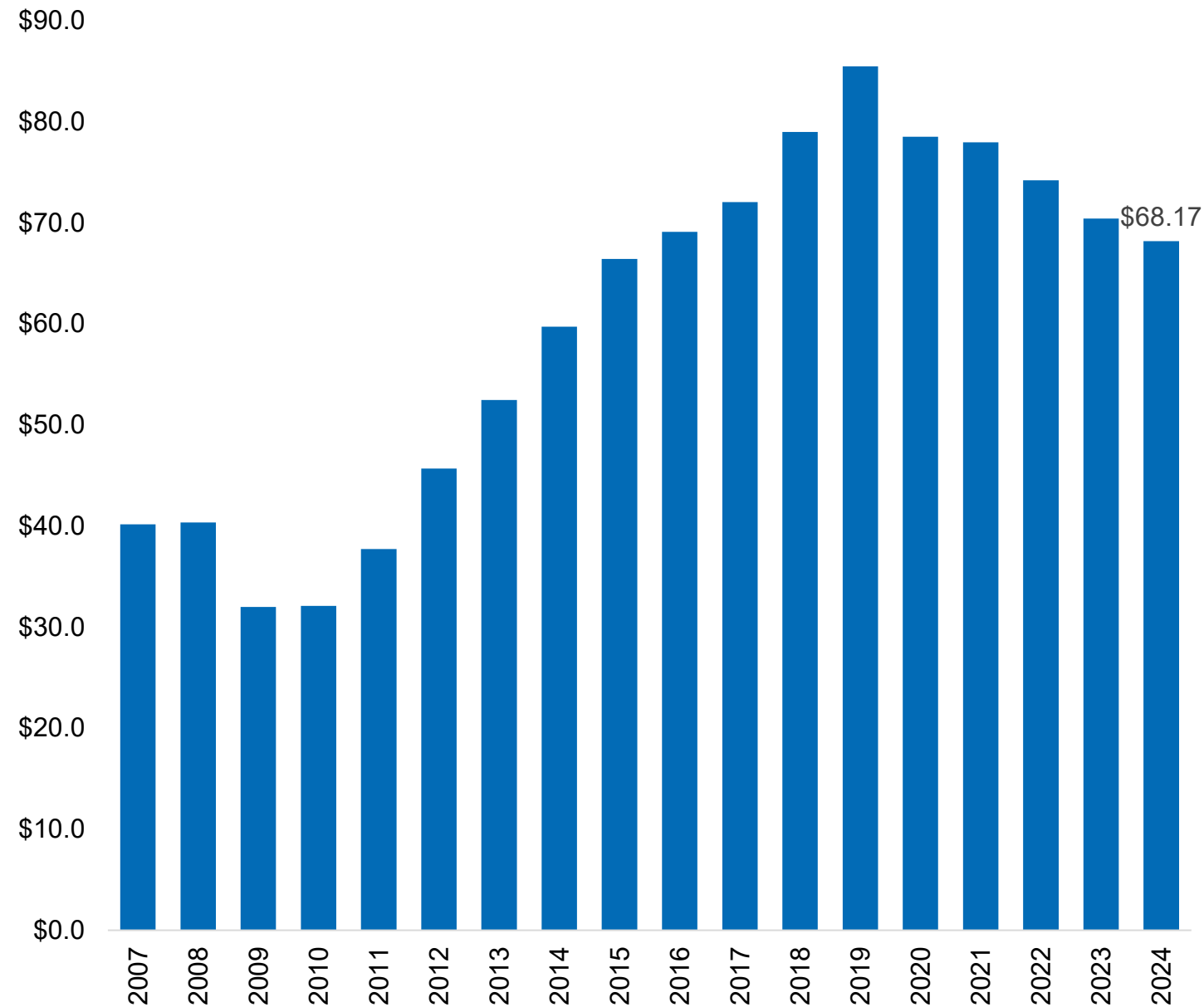


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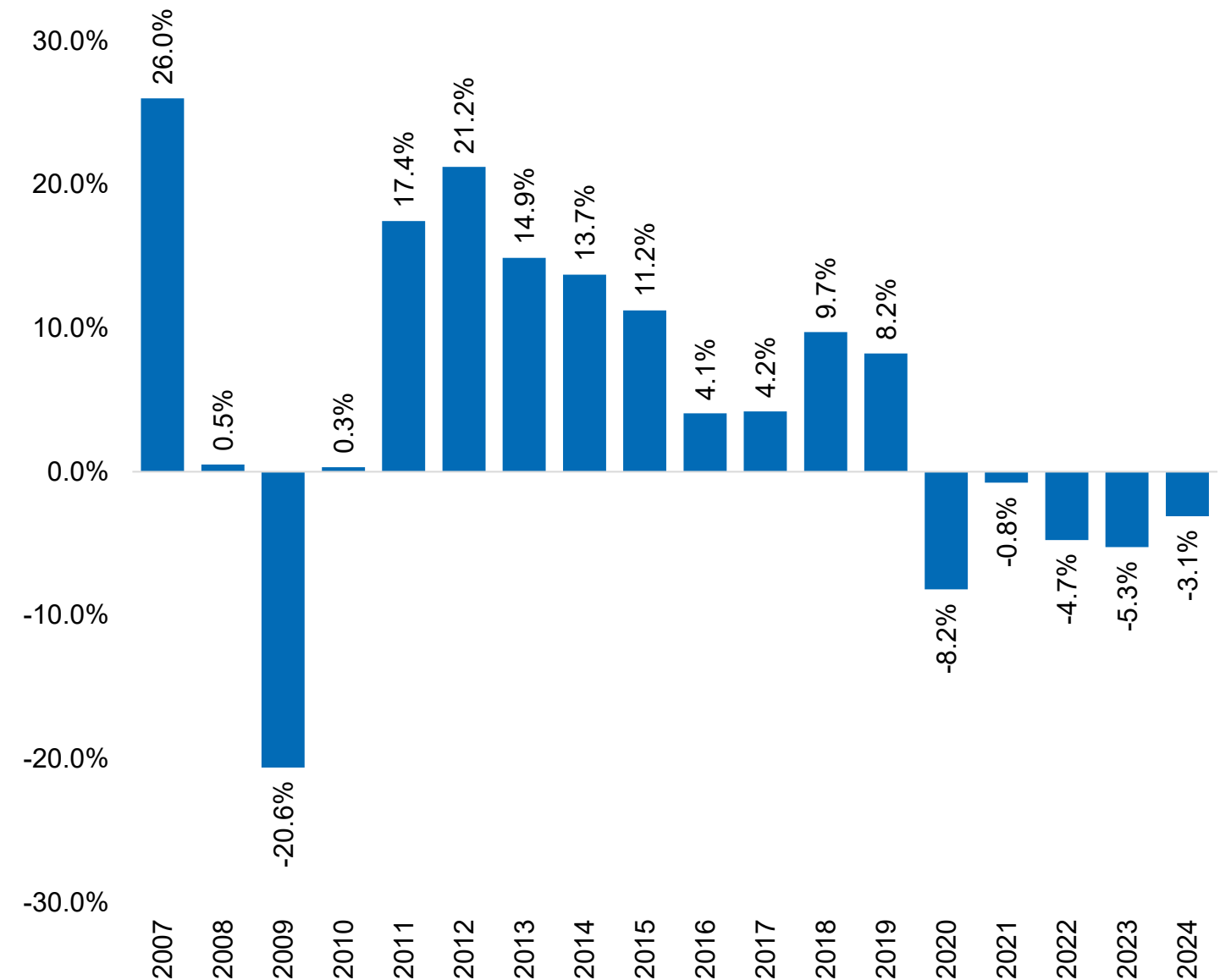
# Overall Market Rents Continued to Slide

Rents have steadily declined since the start of 2020 as assets have traded hands at discounts and overall demand has remained below pre-2020 averages. Most recently, overall asking rates declined by 3.1% year-over-year to \$68.17/SF – marking the lowest average asking rate since 2015.

Office Average Asking Rent, \$/SF, FS



Year-Over-Year Asking Rent Growth Rate

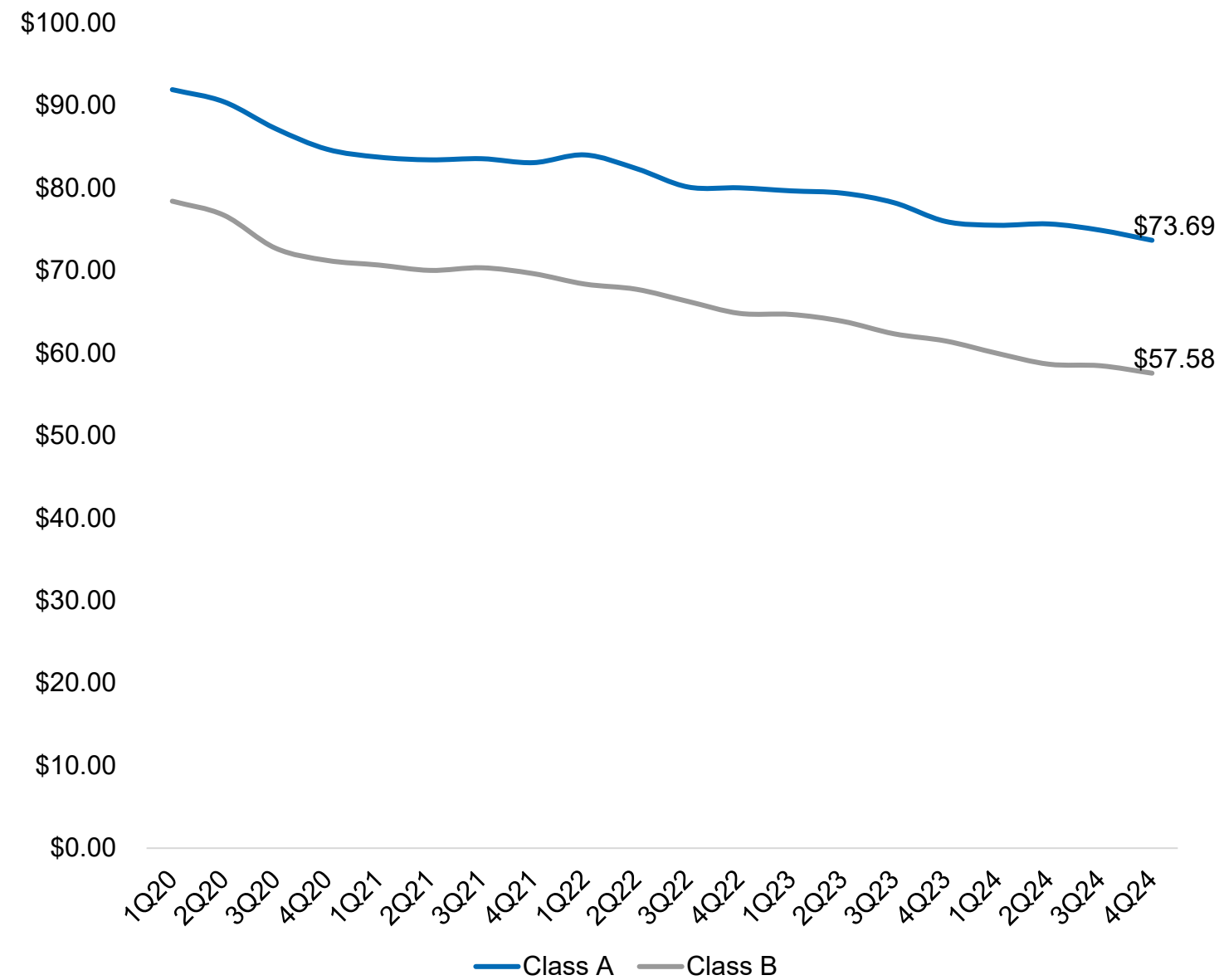


Source: Newmark Research, CoStar

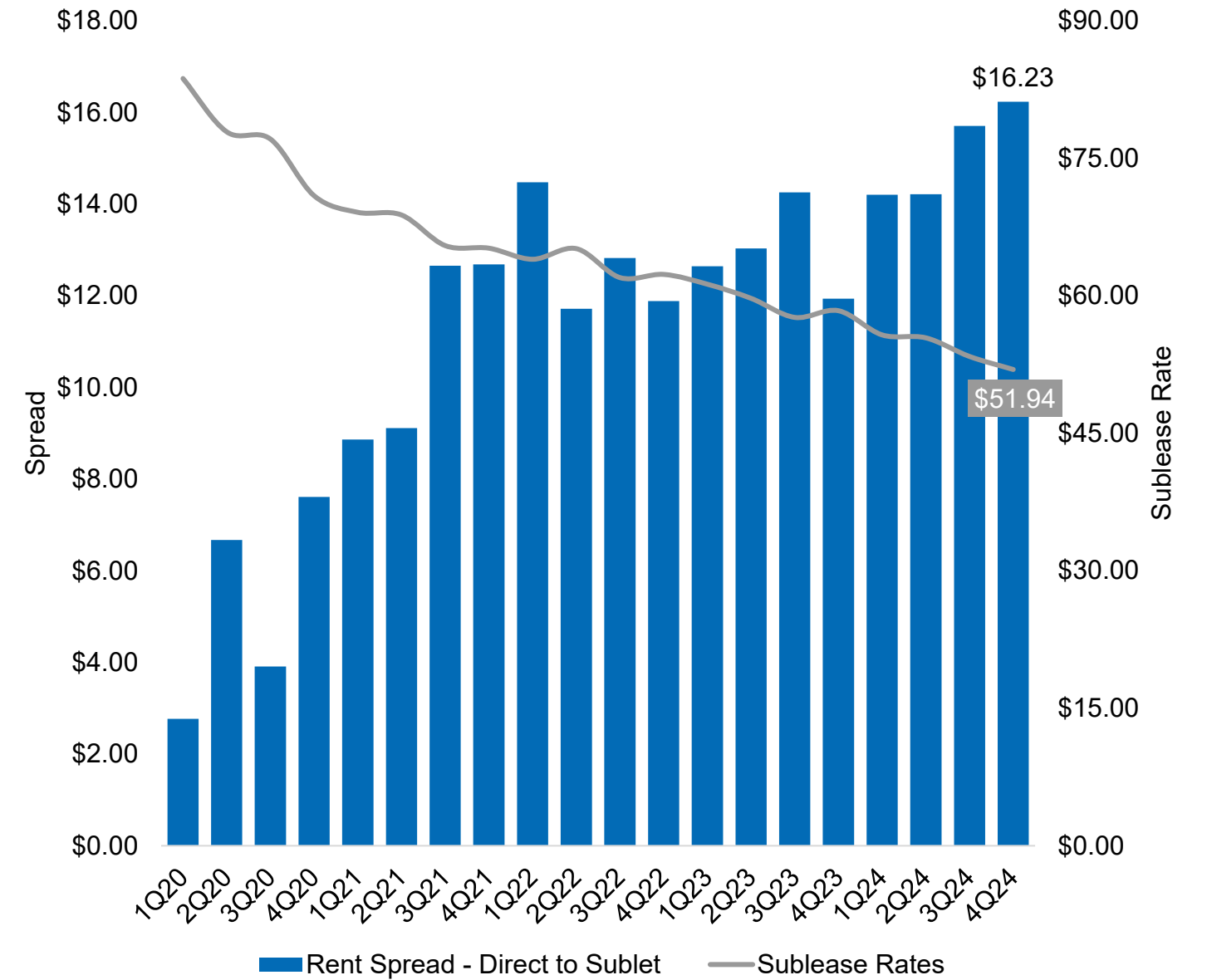
# Spread Between Direct and Sublease Asking Rents Reached New High

Since the start of 2020, Class A asking rates have declined by 20%, while Class B rates have declined by just over 26%. As the San Francisco office market has gone from a very low vacancy of 3.1% at the end of 2019 to the current 29.8%, the spread between Direct and Sublease asking rents has expanded from \$2.90/SF to \$16.23/SF.

Class A and Class B Asking Rents



Sublease Asking Rates



Source: Newmark Research, CoStar

# Leasing Activity

The trends of the past 12-18 months persisted and were evident in the largest lease transactions of the fourth quarter. Mature tech firms like Airbnb and Lyft consolidated and significantly decreased their footprints while emerging AI companies like Notion and Grammarly took advantage of tenant-friendly market dynamics with expansions.

## Notable 4Q24 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Airbnb	888 Brannan Street	SOMA - West	Lease Renewal	250,903
<i>Despite utilizing a work-from-anywhere model, the short-term rental company's longtime headquarters will remain an essential place for fostering in-person connection and collaboration.</i>				
Lyft	185 Berry Street	SOMA – Mission Bay	Lease Renewal	166,668
<i>The rideshare company remains committed long-term to the city where it was founded.</i>				
Notion	685 Market Street	South Financial District	Direct Lease	104,123
<i>The AI company previously occupied roughly 65,000 square feet in the Mission District.</i>				
Golden State Warriors	Mission Rock – Building B	SOMA – Mission Bay	Direct Lease	70,790
<i>The team is the first tenant to lease space in the building and will occupy the third and fourth floor.</i>				
Grammarly	475 Sansome Street	North Financial District	Lease Renewal/Expansion	66,523
<i>The AI company renewed and expanded to another floor in the building.</i>				

Source: Newmark Research, CoStar

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4Q24

# Appendix





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