



NEWMARK

# San Francisco Office Market Overview

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4Q25

# U.S. Market Observations



## Economy

- While the U.S. economy grappled with a stalling labor market and rising national unemployment, San Francisco's office-using core faced a deeper structural contraction, albeit with a surprisingly resilient local unemployment rate. Despite declining office-using employment, office leasing activity in San Francisco hit post-2019 highs in 2025 (averaging 2.5M sq. ft. per quarter).
- While the broader economy avoided a total freeze, office-using sectors stalled as companies prioritized cost control and AI-driven efficiency over headcount expansion. While some sectors like Leisure and Hospitality saw seasonal bumps, the office-using sectors continued to contract. Even with the hype surrounding Artificial Intelligence, new hiring in AI has not yet been enough to offset the broader layoffs in legacy tech firms.



## Leasing Market Fundamentals

- Fourth quarter absorption of positive 824K square feet was driven by large move-ins from tech firms into Class B office space. Class B absorption in the fourth quarter was positive 755K square feet. Net absorption year-to-date was just under positive 728K square feet.
- Overall availability decreased by 180 basis points in the fourth quarter to 33.4%. Vacancy decreased 80 basis points to 29.4%.
- Average direct asking rents, now at \$67.55/SF, decreasing by 1.1% quarter-over-quarter.
- Total leasing for each of the year totaled over 9.7M square feet, levels not seen since 2019, while demand was at its highest level since 4Q19 at 9.8M square feet.



## Major Transactions

- The largest new lease of the quarter was Sierra AI's 257K square foot lease at 185 Berry St. Other new leases this quarter included Nudge Pharma's 62K square foot lease at 1800 Owens St and Baseten's 26K square foot lease at 360 Third St.
- Several large renewals were signed this quarter, including Google for 416K square feet at Hills Plaza and DocuSign for 90K square feet at 221 Main St.
- Subleases in the fourth quarter include Kikoff at 633 Folsom St for 55K square feet and Vercel at 201 Mission St for 44K square feet.
- The largest sale by square footage during the quarter Lone Star's acquisition of 600 California St for \$130M or \$322/SF.



## Outlook

- Artificial Intelligence companies remain the primary engine of new growth. By the end of 2025, AI firms occupied over 6 million square feet in San Francisco. This cluster effect is expected to keep the Financial District and South of Market (SOMA) as the country's leading hubs for high-growth tech leasing.
- Positive Absorption & Declining Vacancy: After hitting a peak vacancy of approximately 31–32% in 2024, the market enters 2026 with positive net absorption for the first time since 2019. Vacancy rates should continue a slow, gradual decline as tech and AI firms backfill prime spaces.
- Renewals vs. New Leases: For the first time since the pandemic, renewals began to outpace new leases in volume (accounting for roughly 43% of total activity), as companies felt more confident in their hybrid work requirements.

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## Table of Contents

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

# 01

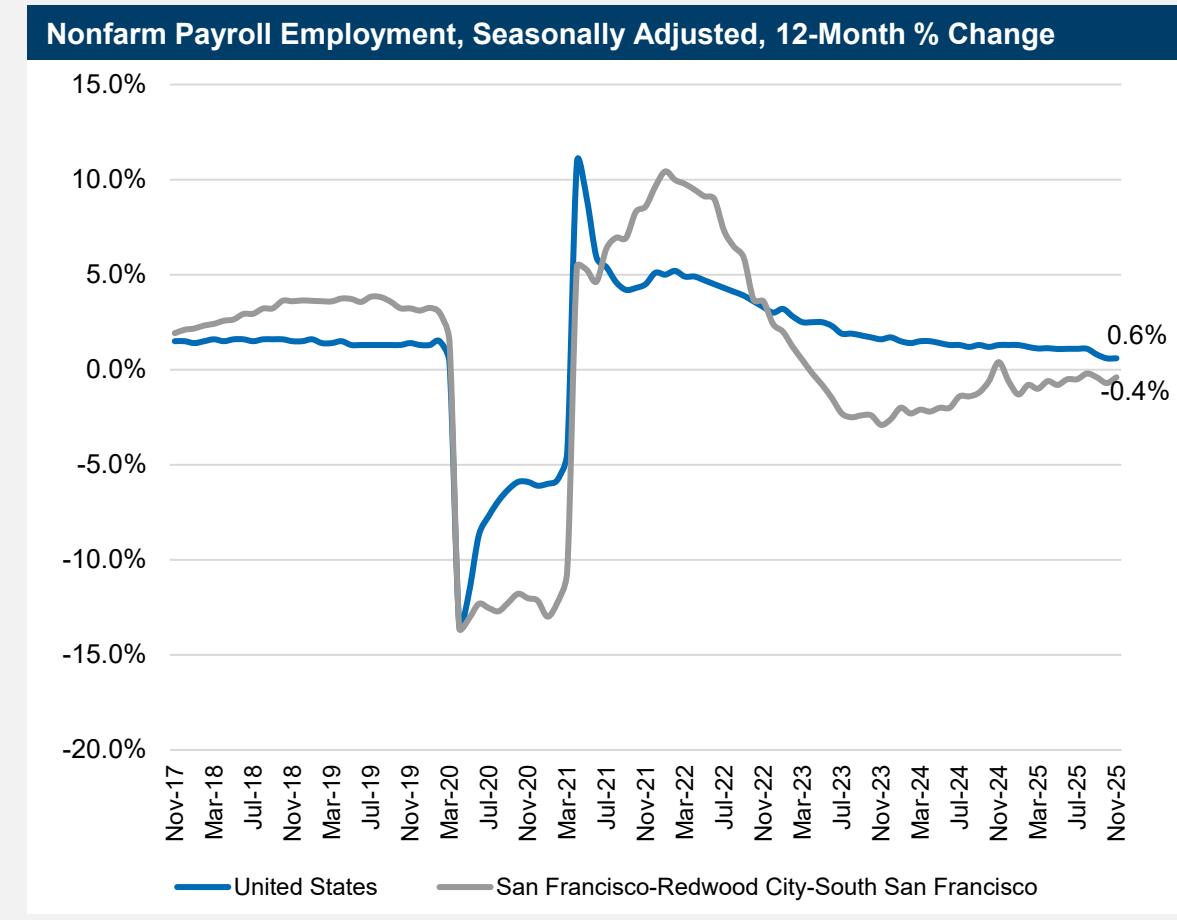
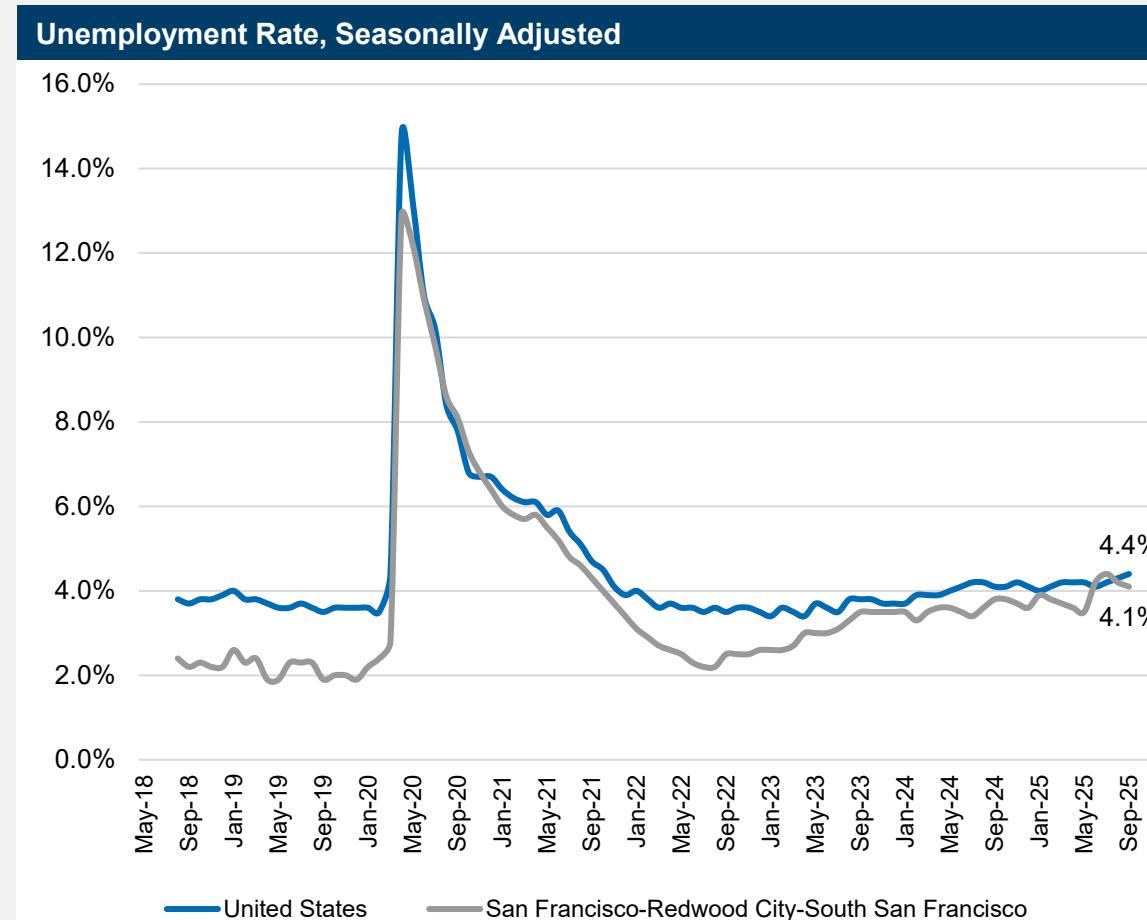
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## Economy



# Regional Unemployment Remains Below National Level

Despite the slight rise in the national rate, the San Francisco-San Mateo region continued to maintain an unemployment rate lower than both the national average and the California state average which hit 5.6% in September. Year-over-year changes in nonfarm employment in the region have remained steady in the negative over the last 3 years.



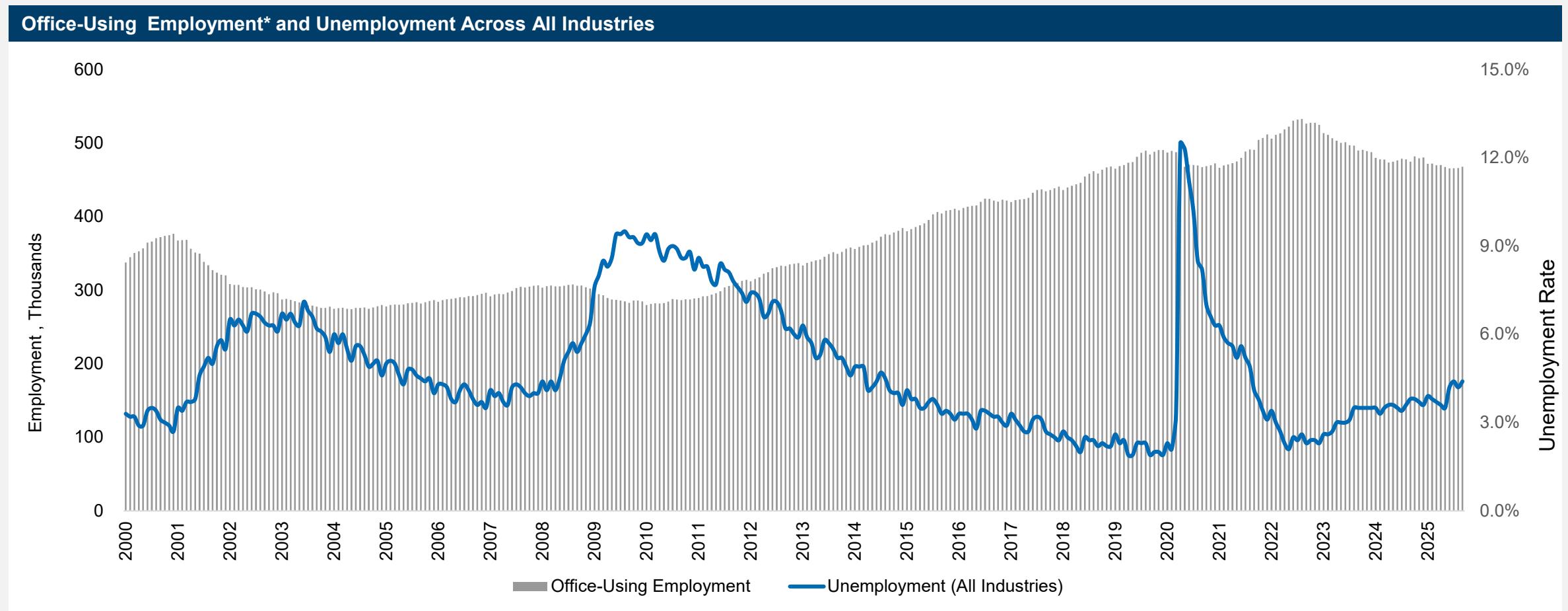
# Office Using Employment Down 2.0% Year-Over-Year

Nationally, the final quarter of 2025 was described as hitting an "air pocket." While the broader economy avoided a total freeze, office-using sectors stalled as companies prioritized cost control and AI-driven efficiency over headcount expansion. While some sectors like Leisure and Hospitality saw seasonal bumps, the office-using sectors continued to contract. Even with the hype surrounding Artificial Intelligence, new hiring in AI has not yet been enough to offset the broader layoffs in legacy tech firms.



# Unemployment Rate Below National Average

While the U.S. economy grappled with a stalling labor market and rising national unemployment, San Francisco's office-using core faced a deeper structural contraction, albeit with a surprisingly resilient local unemployment rate. Despite declining office-using employment, office leasing activity in San Francisco hit post-2019 highs in 2025 (averaging 2.5M sq. ft. per quarter).



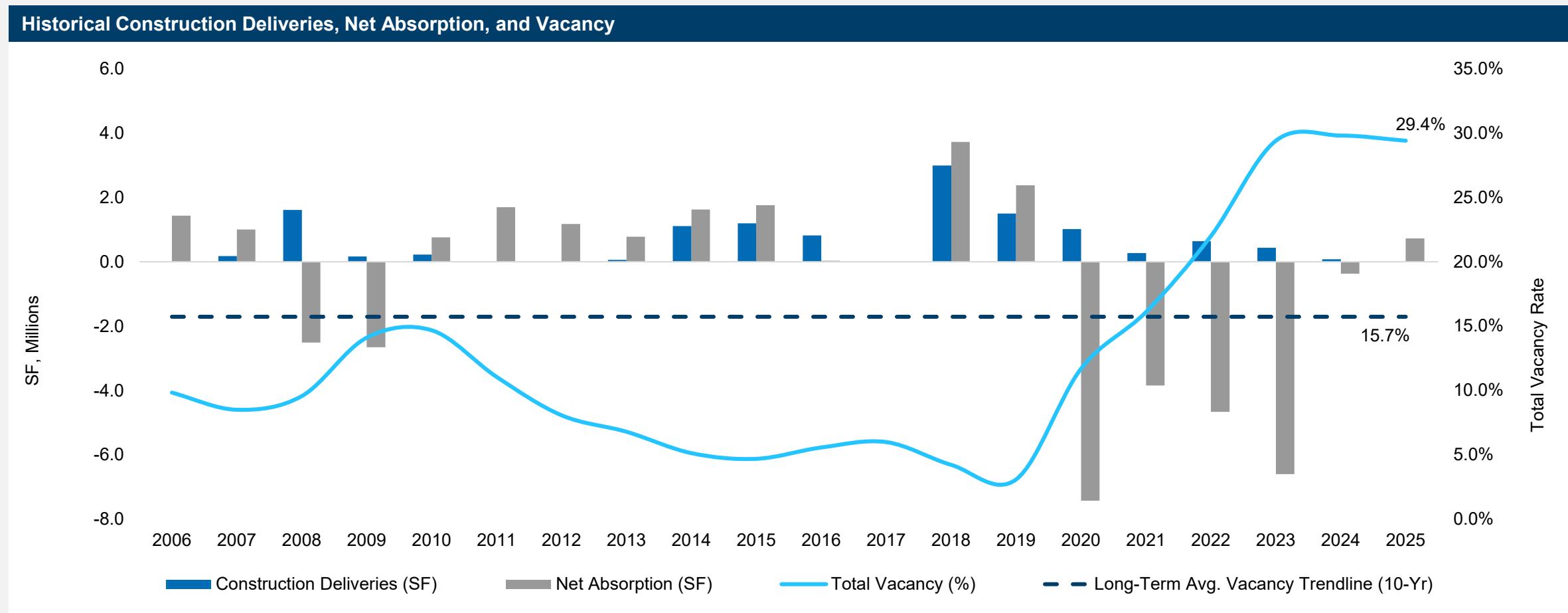
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## Leasing Market Fundamentals

4Q25

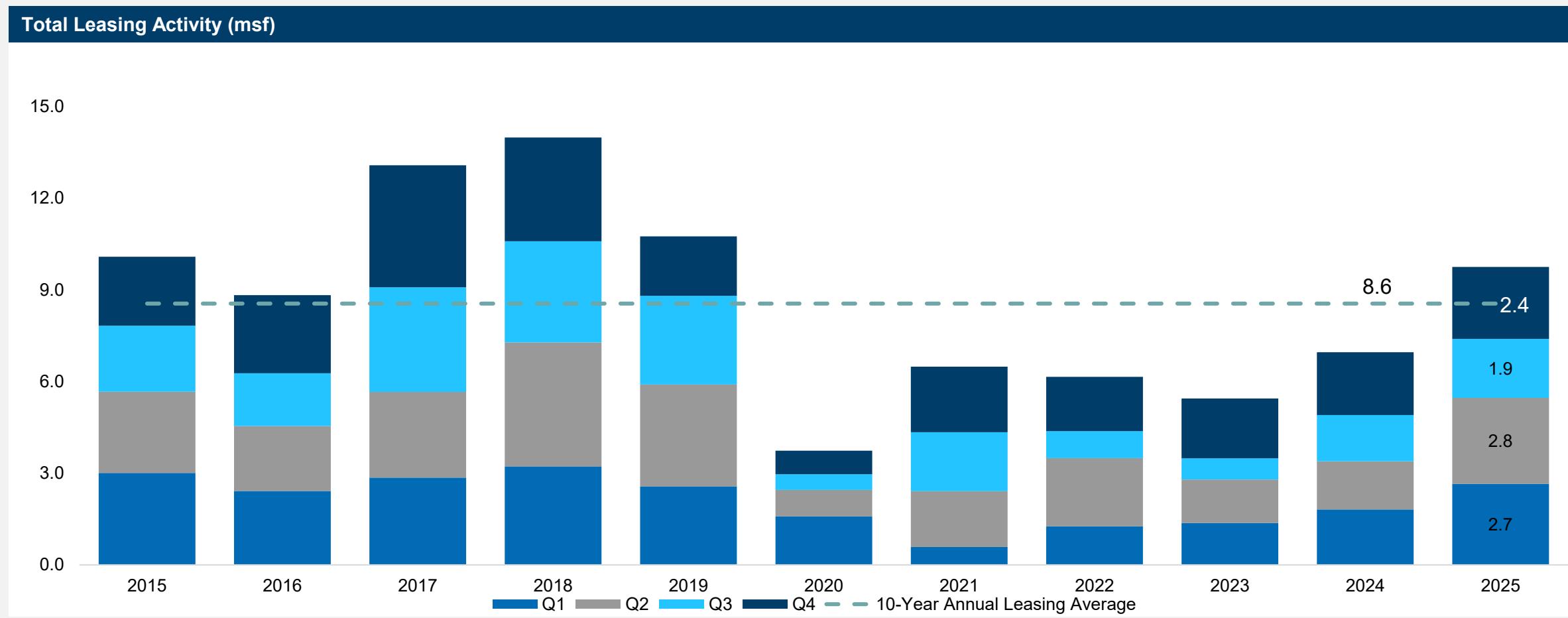
# Incremental Increase in Vacancy

Fourth quarter absorption of positive 824,000 square feet was driven by an acceleration in leasing activity, especially larger transactions in Class B office space. Class B absorption in the fourth quarter was positive 755,000 square feet. Net absorption for the second half of 2025 was just over positive 1,132,000 square feet. AI/Technology tenant demand has shifted towards for high amenity, well-located, collaborative office settings. Overall availability decreased by 180 basis points in the fourth quarter and stands at 33.4%.



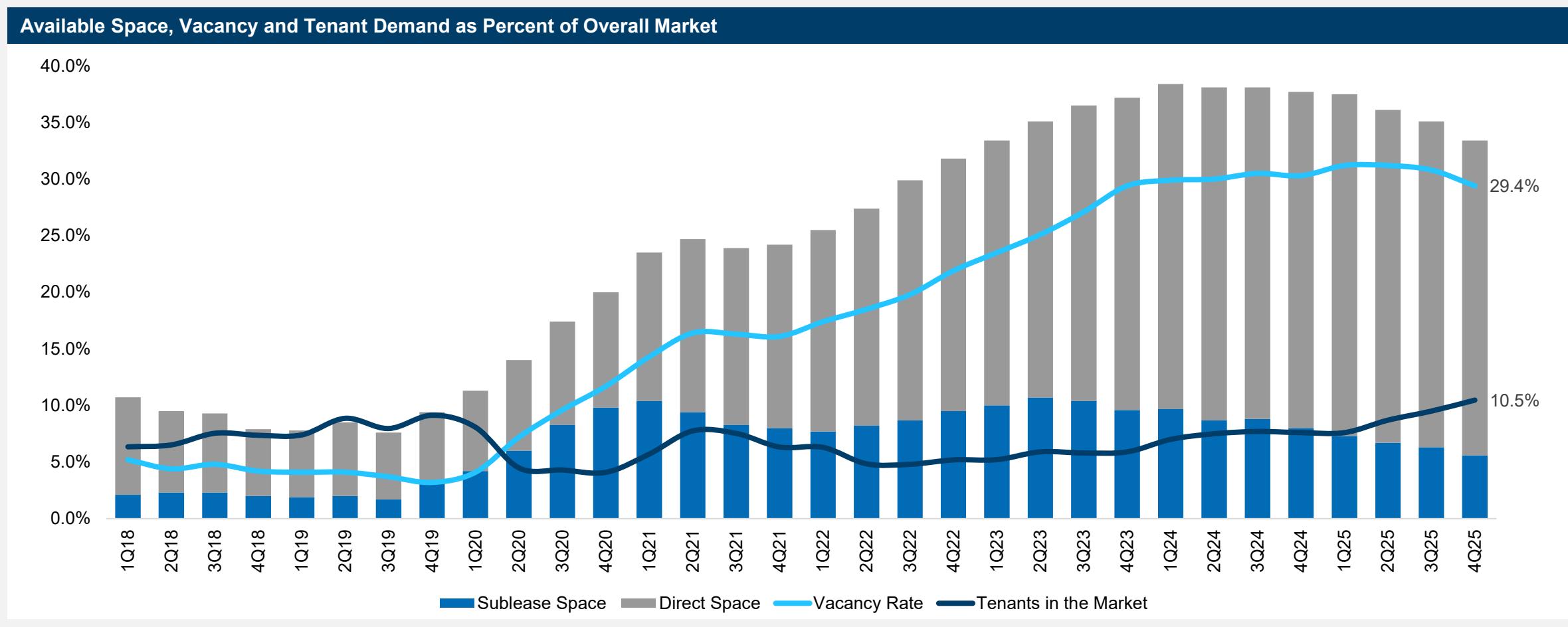
# Leasing Activity Back to Pre-Pandemic Levels

Year-to-date leasing activity had reached 9.8 MSF by the end of 2025, surpassing total annual volumes from 2020-2024. Tenants leasing at new locations this quarter included Sierra AI, which signed over 257K square feet, and Anthropic, which signed 104K square feet. Additionally, Google renewed its lease for 416K square feet at Hills Plaza (renewals are not included in leasing totals).



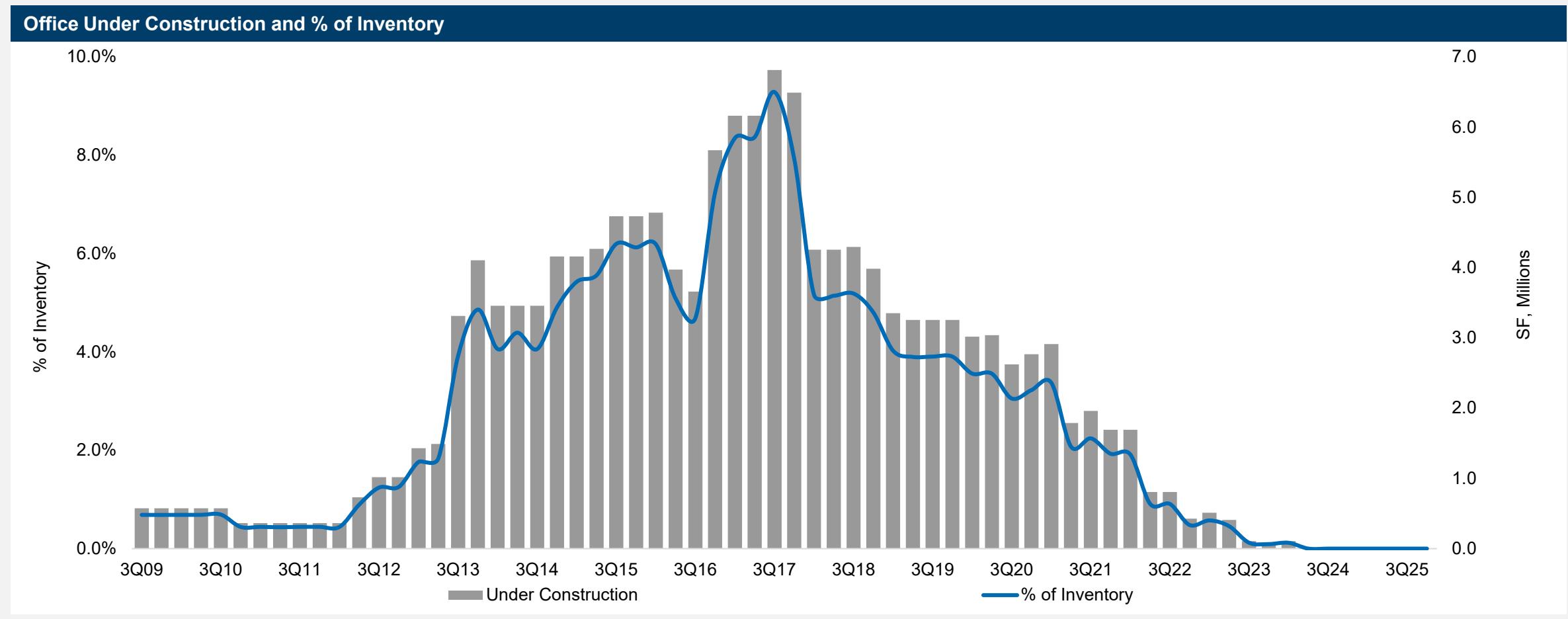
# Increase in Tenant Demand as Sublease Space Continued to Decrease

Available sublease space has declined year-over-year from totaling 8.0% of the market to 5.6% of the market, while overall availability decreased 420 basis points during the same period to 33.4%. Vacancy has been vacillating between 30.1% and 30.4% over the past year, ending the year at 29.4%, a decline of only 80 basis points year-over-year.



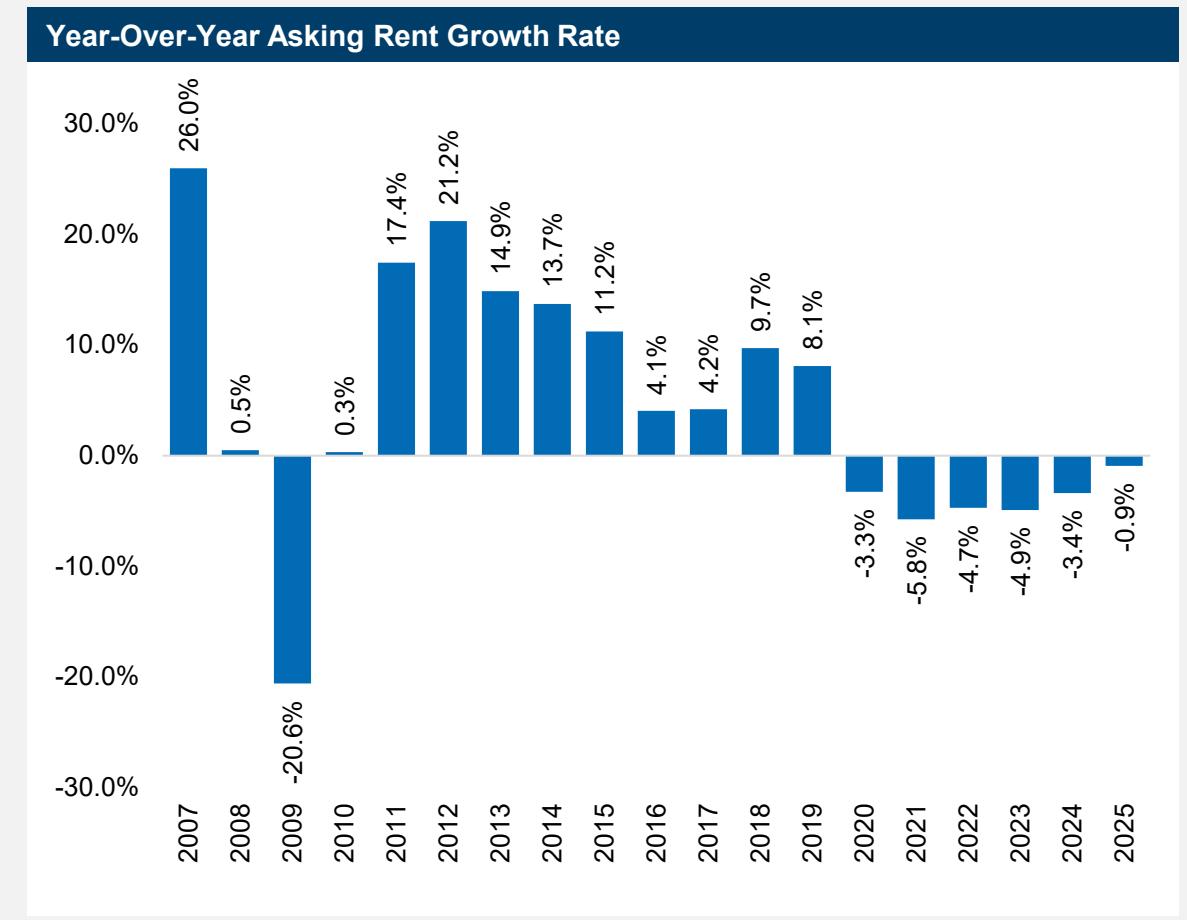
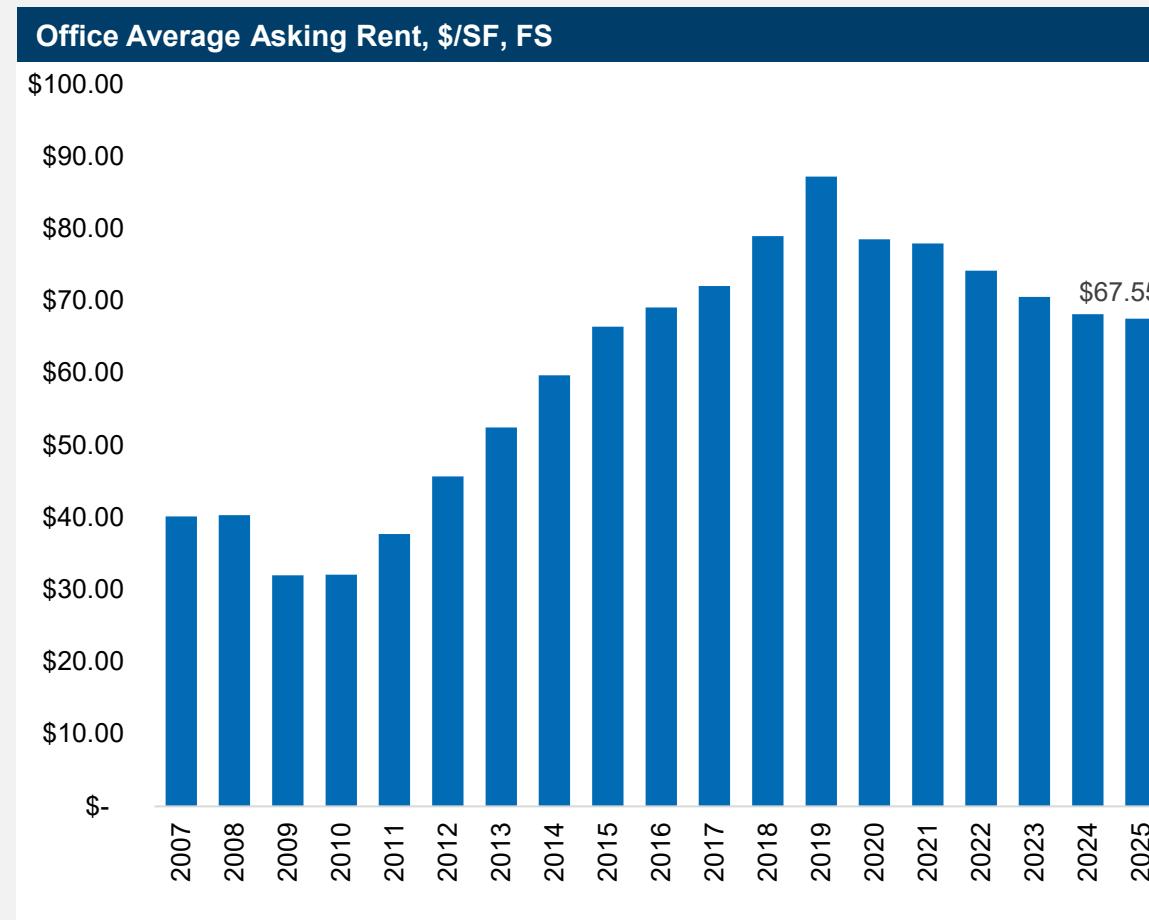
# No New Office Development Under Construction in San Francisco

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.



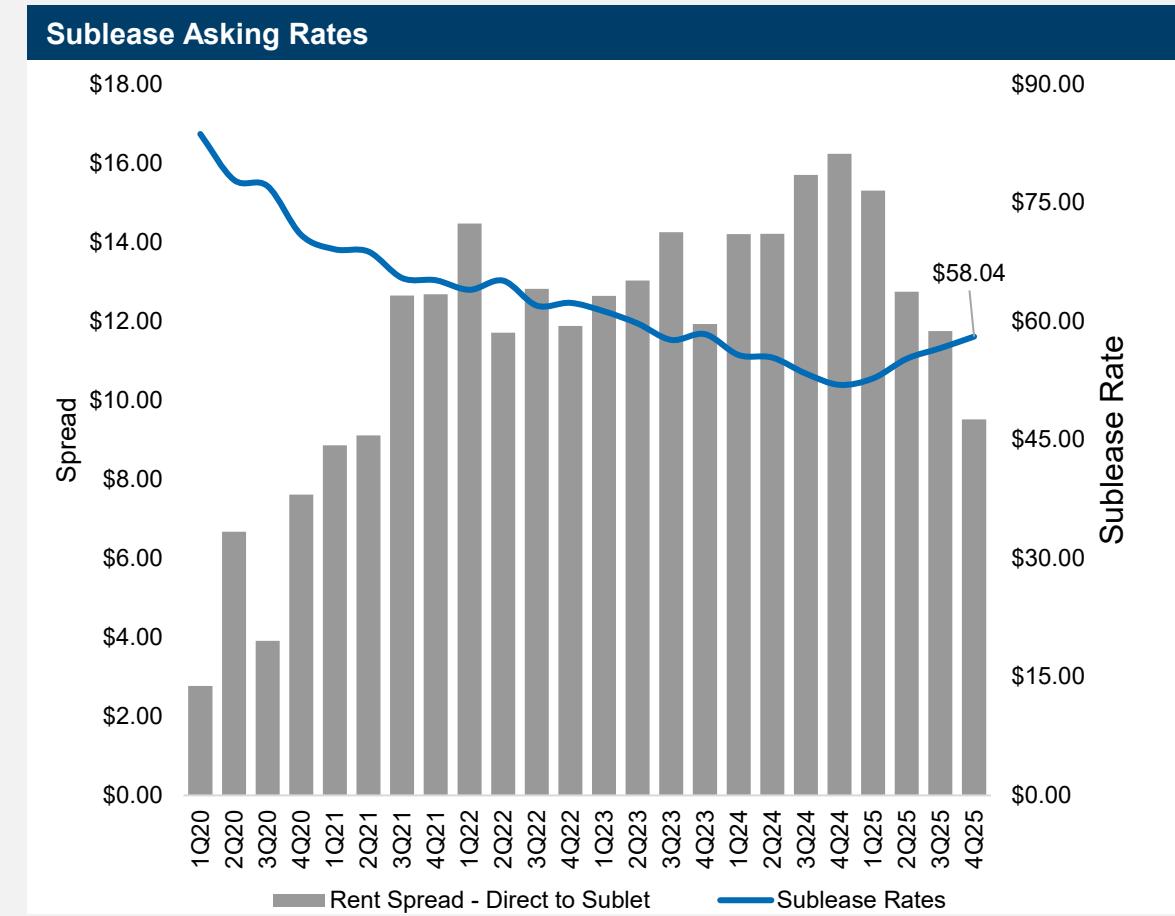
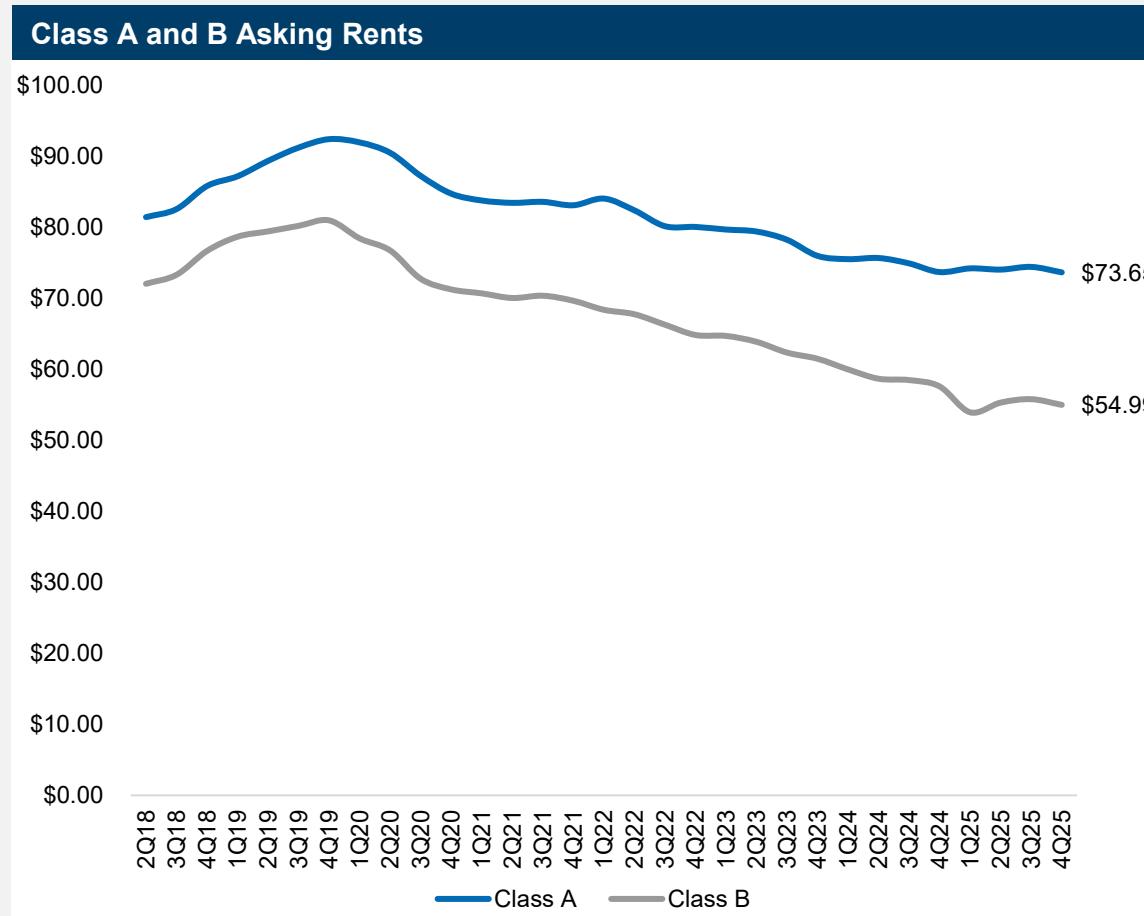
# Decreases in Overall Market Rents Slowed

Direct asking rents have been steadily declining since 2020, dropping by a total of 22.6% since peaking in the fourth quarter of 2019. Average direct asking rates were \$67.55/SF at the end of 2025 – a slight decrease over the prior three years. Rents appear to be leveling-off and decreased by just 0.9% year-over-year.



# Sublease Asking Rents Continued to Stabilize

Although there was an increase in sublease rents in the fourth quarter, sublease asking rents have fallen 30.6% since the start of 2020. While Class A asking rates declined by 20.3% and Class B rates declined by 32.1% since the height of the market, rents appear to be levelling. Class A rates are within 0.1% of where they were a year ago.



# Sierra AI and Nvidia Anchored Q4 Leasing Activity

In the final quarter of 2025, the San Francisco office market saw a notable increase in average transaction size, largely driven by a handful of massive megadeals signed by AI companies that skewed the quarterly averages upward. 3Q25 was a summer slowdown period where activity was dominated by small-to-midsize tech firms (under 20,000 SF) and spec suites. In contrast, 4Q25 saw a flurry of larger institutional commitments from firms like Nvidia (45K SF) and Ironclad (54K SF), moving the needle away from the small suite dominance seen earlier in the year.

## Notable 4Q25 Lease Transactions

Tenant	Address	Submarket	Type	Square Feet
Sierra AI	185 Berry St	Mission Bay/China Basin	Direct	257,817
<i>This is a landmark transaction that encapsulates the current San Francisco office recovery. Finalized in November 2025, the deal is a "win-win" story of a high-growth AI startup filling the vacuum left by the previous generation of tech. Sierra is taking over a massive block of space essentially vacated by Lyft, which downsized from ~335,000 SF to ~163,000 SF earlier in 2025.</i>				
Abridge AI	208 Utah St	Showplace Square	Direct Lease	79,134
<i>The Abridge AI lease at 208 Utah Street, signed in late 2025, is a defining example of the "Area AI" expansion and the revitalization of San Francisco's PDR (Production, Distribution, and Repair) and creative districts. Abridge's decision to take a full-building headquarters in Showplace square here cements this neighborhood as the primary alternative to the Financial District for "builder-heavy" AI firms who prefer industrial-chic, low-rise architecture over corporate towers.</i>				
Ironclad	650 California St	Financial District North	Direct Lease	54,000
<i>Ironclad's lease is a prime example of the "flight to quality" and the stabilization of the North Financial District. Ironclad's choice validates the idea that high-growth tech firms are no longer looking for "edgy" industrial spaces in SOMA, but rather the prestige and infrastructure of the Financial District to support a sophisticated, professional workforce.</i>				
Nvidia	1090 Dr. Maya Angelou Ln	Mission Bay/China Basin	Direct Lease	45,126
<i>This deal is considered one of the most prestigious "stamp of approval" moments for the city's 2025 office recovery. By taking an entire floor at Mission Rock, Nvidia has effectively anchored the city's newest waterfront neighborhood. It allows Nvidia to be physically closer to its most important customers—San Francisco-based startups like OpenAI, Anthropic, and Sierra AI—facilitating the high-touch engineering and sales collaboration required for the next phase of AI infrastructure.</i>				

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## Appendix



# Access the Extended 4Q25 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**

To access, please reach out  
to your Newmark contact.

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