

MARKET TRENDS

SAN FRANCISCO OFFICE

MARKET DRIVERS

The first quarter of 2025 posted another solid quarter of leasing activity, suggesting San Francisco is a market with strengthening fundamentals. Total leasing activity exceeded 2.8M SF during the quarter, bolstered by a couple larger transactions, a handful of mid-sized deals and steady activity from smaller-sized tenants. The total volume experienced in 1Q 2025 was the highest level since 2019 and was 27% higher than the quarterly average in 2024 (2.2 M SF) and 55% higher than the quarterly average in 2023 (1.8M SF). More than 85% of the activity was either in the Financial District, South Financial District or Rincon/South Beach.

However, the recent surge in leasing activity wasn't enough to pull net absorption into the black as market wide net absorption totaled -258,531 in 1Q 2025. This was largely due to the amount of collective square footage from renewals, which is not calculated into absorption. As a result of the negative quarter, the overall vacancy rate inched up 30 basis points to 31.7%. In total, there is approximately 32.7M SF of vacant space in San Francisco, up from 31.8M SF in 1Q 2024, but significantly higher than the pre-covid figure of 7.3M SF in 1Q 2020. At the current rate of leasing, it would take approximately 4-5 years to return to a similar state of vacancy. However, a more realistic time frame is much longer than that, given the current dynamics of the office market. While vacancy rate increases have been decelerating in recent quarters and leasing activity appears to be strengthening, the market still has a substantial path to recovery.

Given the numerous challenges experience by the San Francisco office market over the past handful of years, cautious optimism has been growing around the city. Not only has there been some improvement in the underlying fundamentals, the technology sector is poised for growth, artificial intelligence remains active, and businesses are beginning to implement return to work policies for their employees - all positive drivers for future office growth in San Francisco. There continues to be a flight to quality to Class A properties due to location, amenities and discounted rates, a bifurcation remains with varying performance among asset classes and submarkets.

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Market Summary

	1Q25	4Q24	1Q24	YOY Change
Direct Vacancy Rate	27.0%	26.7%	25.6%	140 bps
Overall Vacancy Rate	31.7%	31.4%	30.8%	90 bps
FIDI Direct Lease Rate (A&B)	\$47.08	\$47.11	\$50.50	-6.8%
Under Construction SF	0	0	54,452	N/A
	1Q25	4Q24	1Q24	YOY Change
Leasing Activity	2,816,187	2,132,928	1,884,809	32.0%
Net Absorption	-258,531	364,938	-211,904	N/A
New Deliveries	0	0	28,906	N/A
Sale Volume (SF)	995,065	1,382,023	70,640	-28.0%

↑ **2.8M SF**
LEASING ACTIVITY

↑ **-259K SF**
NET ABSORPTION

↑ **31.7%**
TOTAL VACANCY RATE

↓ **\$47.08**
ASKING RENT (AVG)

↔ **0 SF**
NEW DELIVERIES

Year-Over-Year Trend

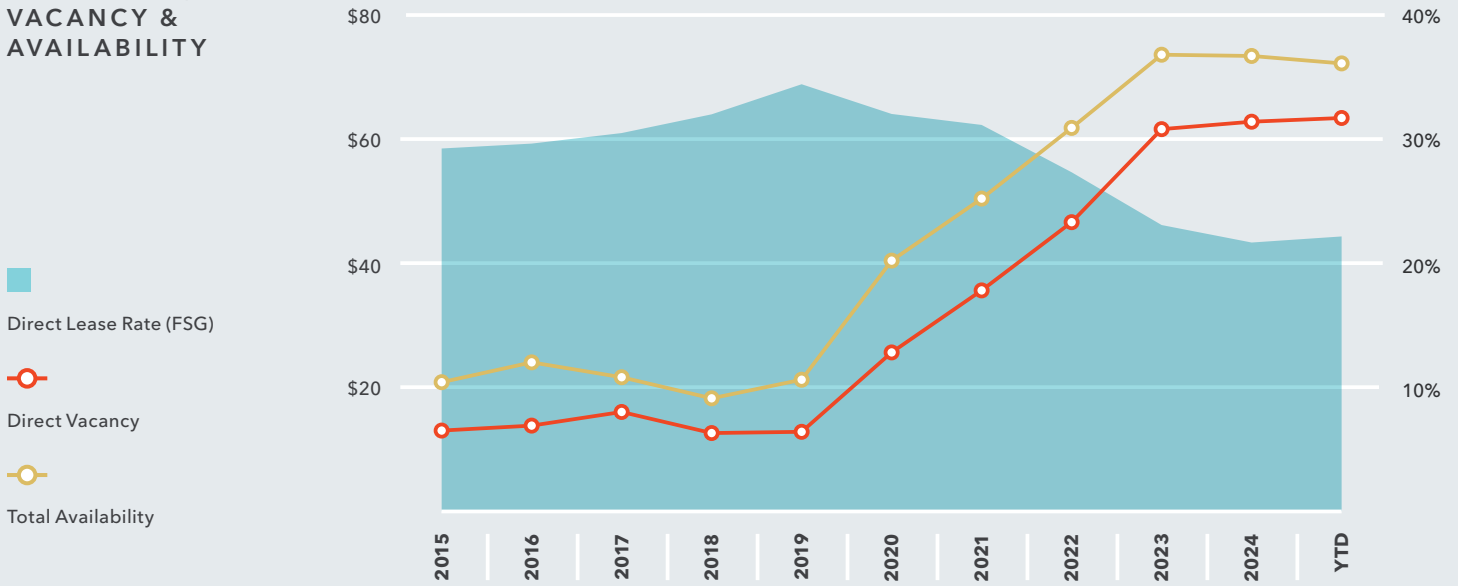
Market Highlights

NET ABSORPTION ended the quarter with -259K SF

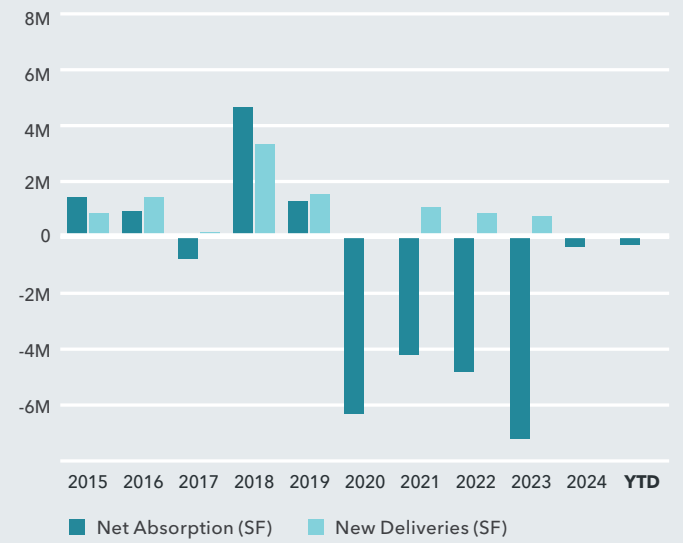
LEASING ACTIVITY totaled ±2.8M SF during the quarter

OVERALL ASKING RENTS decreased compared to last year, from \$50.50 to \$47.08 Full Service Gross

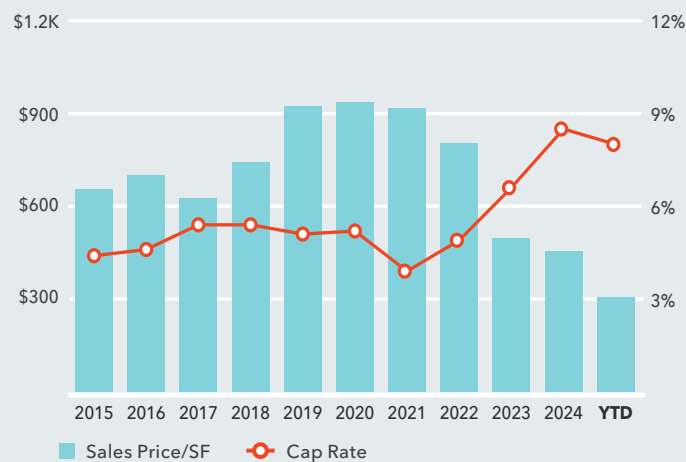
LEASE RATE, VACANCY & AVAILABILITY



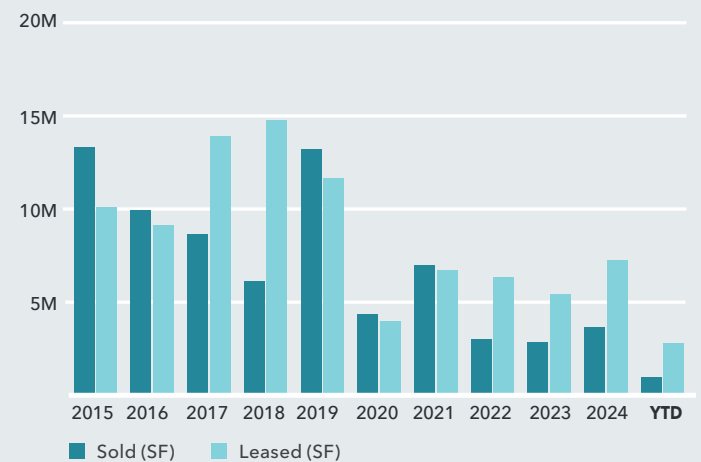
NET ABSORPTION & NEW DELIVERIES



AVERAGE SALES PRICE/SF & CAP RATE



SALE VOLUME & LEASING ACTIVITY



SUBMARKET STATISTICS

Submarket	Total Inventory	Under Construction	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	Total Availability Rate	1Q25 Total Net Absorption	2024 Total Net Absorption	1Q25 Leasing Activity	2024 Leasing Activity	Direct Rental Rate
Civic Center	680,923	0	29.2%	0.0%	29.2%	23.4%	-11,896	-12,413	0	19,171	\$31.79
Financial District	30,412,954	0	28.3%	2.8%	31.1%	34.7%	-6,029	-70,264	1,113,489	2,015,829	\$48.76
Jackson Square	2,396,335	0	19.3%	2.6%	22.0%	24.4%	33,642	-721	40,614	142,958	\$43.58
Mid Market	5,321,720	0	39.7%	6.7%	46.4%	55.7%	-95,898	197,600	22,983	245,309	\$44.37
Mission Bay/China Basin	4,338,527	0	28.8%	4.8%	33.6%	35.5%	-252,507	369,953	7,902	639,549	\$54.55
Mission/Potrero	1,915,905	0	12.9%	0.7%	13.6%	22.1%	4,707	77,895	27,447	175,660	\$40.45
Rincon/South Beach	6,243,954	0	21.9%	6.5%	28.4%	36.6%	-55,984	262,417	716,038	259,289	\$44.65
Showplace Square	4,461,142	0	18.1%	11.3%	29.4%	39.6%	111,910	125,406	142,040	55,458	\$41.55
South Financial District	29,590,426	0	23.6%	5.8%	29.4%	35.6%	180,598	-1,230,710	584,426	1,638,698	\$50.34
SOMA	3,818,420	0	33.1%	2.1%	35.1%	30.9%	40,471	27,365	69,836	241,305	\$40.05
Union Square	4,668,043	0	28.8%	1.4%	30.2%	31.9%	16,941	-134,493	31,767	185,462	\$44.33
Van Ness Corridor/Chinatown	1,623,416	0	17.6%	1.0%	18.6%	25.3%	-9,919	11,135	1,950	13,860	\$43.04
Waterfront/North Beach	3,745,105	0	29.0%	5.2%	34.2%	36.2%	55,471	-119,932	31,241	136,292	\$41.18
Yerba Buena	4,079,522	0	45.9%	7.9%	53.8%	56.9%	-270,038	-164,889	26,454	81,190	\$40.69
San Francisco Totals	103,296,392	0	27.0%	4.6%	31.7%	36.4%	-258,531	-661,651	2,816,187	5,850,030	\$47.08
Class A	62,996,614	0	26.9%	4.7%	31.6%	36.4%	-230,755	-847,433	1,944,879	3,825,842	\$52.71
Class B	33,334,351	0	28.3%	5.3%	33.6%	38.3%	-49,615	289,858	772,301	1,765,689	\$40.69
Class C	6,965,427	0	21.8%	1.5%	23.3%	26.4%	21,839	-104,076	99,007	258,499	\$32.69

MARKET DRIVERS CONTINUED

During the first quarter, Class A properties accounted for 69% of the total leasing activity, a trend that has been very consistent in recent years. Additionally, Class B properties accounted for 27%. The high volume of leasing activity seen within the Class A asset class has also contributed to a widening gap in asking rents between Trophy and Class A properties versus Class B and Class C properties. While the former has experienced moderate levels of asking rent increases, the latter has seen additional deterioration. However, this trend is very dependent on the quality of the asset, the tenant make-up of the property, the ownership and the location.

Sublease space, which has recently been a key catalyst for increasing vacancy and availability, decreased by 13% in 1Q 2025, dropping to under 7.0M SF for the first time since 2020. Currently, sublease availability accounts for approximately 18% of the total available space on the market - significantly lower than the 40%+ in 2020, but still higher than the longer-term pre-covid average of 14%-15%. The drop can be attributed to new leases occurring in the market, tenants taking back some of their space to accommodate employees returning to the office as well as expired sublease space being returned to the landlord as direct space for lease.

ECONOMIC REVIEW

Economic uncertainty remains across the Bay Area, with lukewarm job growth, increasing unemployment and elevated interest rates. The unemployment rate for San Francisco County was 3.9% in February, an increase compared to last quarter and an increase compared to last year. However, the labor force participation has declined versus the previous year, meaning total employment has fallen to a larger degree than unemployment figures suggest. Recent layoffs from the Technology-Information sector and the Professional-Business Services sector layoffs have driven the majority of job losses during the past year according to the California Employment Development Department.

NEAR-TERM OUTLOOK

Looking ahead, there are a few trends worth monitoring. First, more and more companies are beginning to implement return-to-work policies that are expected to revitalize most office markets across the country, including the Bay Area. While work from home and hybrid work policies will persist, there is expected to be a conscious shift to a more balanced workforce. Other trends to follow include sublease space levels, leasing momentum, future space planning and density levels, inflation rates, interest rates, impact of tariffs, and the potential occupancy impact from Federal downsizing.

SIGNIFICANT SALE TRANSACTIONS 1Q 2025

Property	Submarket	SF	Sale Price	\$/SF	Buyer	Seller
33 New Montgomery	South Financial District	245,379	\$76,261,562	\$311	Ridge Capital	Barings
450 Sansome	Financial District	143,000	\$47,500,000	\$332	Hearst	AEW Capital Management
351 California	Financial District	140,000	\$36,000,000	\$257	Tidewater Capital	TC II 351 California, LLC
530 Jackson St	Jackson Square	15,615	\$32,365,000	\$2,073	Brick & Timber Collective	530 Jackson Street, Inc.
1 Montgomery St	Financial District	97,353	\$22,500,000	\$231	EMPIRE	Affinius Capital, LLC

SIGNIFICANT LEASE TRANSACTIONS 1Q 2025

Property	Submarket	SF	Transaction Date	Landlord	Tenant
Hills Plaza	Rincon/South Beach	600,000	January 2025	Morgan Stanley	Google (Renewal)
560 Mission	South Financial District	150,000	January 2025	Hines Commonweath	JP Morgan Chase (Renewal)
One Sansome	Financial District	150,000	March 2025	Prudential	Databricks
Transamerica Pyramid	Financial District	122,619	March 2025	SHVO	Morgan Lewis
600 Townsend East	Showplace Square	87,406	March 2025	LBA Realty	Tools for Humanity

Data Source: CoStar, Kidder Mathews, Bureau of Labor Statistics



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COMMERCIAL BROKERAGE	<i>\$9B</i> AVERAGE ANNUAL TRANSACTION VOLUME	<i>26.2M</i> ANNUAL SALES SF	<i>36.7M</i> ANNUAL LEASING SF
ASSET SERVICES	<i>58M SF</i> MANAGEMENT PORTFOLIO SIZE	<i>850+</i> ASSETS UNDER MANAGEMENT	<i>250+</i> CLIENTS SERVED
VALUATION ADVISORY	<i>2,400+</i> AVERAGE ASSIGNMENTS	<i>39</i> TOTAL APPRAISERS	<i>24</i> WITH MAI DESIGNATIONS

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