Kidder Mathews

2Q 2025

MARKET TRENDS

# SAN FRANCISCO *OFFICE*

↑ *2.9M SF*
LEASING ACTIVITY

↑ *-356K SF*
NET ABSORPTION

↑ *31.6%*
TOTAL VACANCY RATE

↓ *$47.82*
ASKING RENT (AVG)

↔ *0 SF*
NEW DELIVERIES

Year-Over-Year Trend

## MARKET DRIVERS

The general feeling surrounding the San Francisco office market can be characterized by growing optimism coupled with underlying caution. Statistically speaking, the market is producing mixed results with an overall vacancy rate of 31.6% at the end of 2Q 2025, the seventh straight quarter above 30% and the fifth straight quarter above 31%. However, the rate of increase has slowed considerably compared to the sustained spike seen from 2020 to 2023. The overall vacancy rate remained flat, quarter-over-quarter, and is only up slightly compared to the same time last year and while the rate is expected to remain elevated during the near-term, a recent uptick in overall leasing activity has been an encouraging trend during the first half of 2025.

Total leasing activity just posted back-to-back quarters above 2.8M SF, bringing the year-to-date total to 5.7M SF. This was the highest first half total since 2019 and was more than 50% higher than the first half total in 2024. However, even with solid levels of leasing activity (which includes renewals and signed leases with future move dates), net absorption was negative for the second straight quarter, totaling negative 355,606 SF in 2Q 2025, bringing the YTD total to negative 614,137 SF. That said, this is more positive than it appears when compared to the preceding few years.

Overall, tenant activity was driven by a couple larger transactions and a handful of mid-sized deals, but was dominated by smaller transactions as approximately 65% of YTD transactions were under 5,000 SF. This has been a common theme over the past few years – smaller deal sizes, shorter lease terms and longer lead times for transactions to be signed. Many tenants continue to right-size their space and remain relatively cautious with the continued uncertainty in today's economy.

The flight to quality persists. Some tenants remain focused on Class A and/or premium view space (with sub-5,000 SF view suites in extremely short supply), while others are prioritizing efficient layouts, creative buildouts or simply looking for flexibility and value. Either way, tenants have become more selective in their search criteria as they sift through the many options available for lease. Recent activity has been largely driven by AI and tech companies, but there has also been a rise in activity from traditional office users that were previously priced out of the San Francisco office market.

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## *Market Summary*

| | 2Q25 | 1Q25 | 2Q24 | YOY Change |
|---|---|---|---|---|
| Direct Vacancy Rate | 27.1% | 27.0% | 26.1% | **100 bps** |
| Overall Vacancy Rate | 31.6% | 31.6% | 31.5% | **10 bps** |
| FIDI Direct Lease Rate (A&B) | $47.82 | $47.08 | $48.58 | **-1.6%** |
| Under Construction SF | 0 | 0 | 0 | **N/A** |

| | 2Q25 | 2025 YTD | 2024 YTD | YOY Change |
|---|---|---|---|---|
| Leasing Activity | 2,864,529 | 5,680,716 | 3,587,428 | **58.4%** |
| Net Absorption | -355,606 | -614,137 | -713,434 | **N/A** |
| New Deliveries | 0 | 0 | 83,358 | **N/A** |
| Sale Volume (SF) | 2,151,621 | 3,007,807 | 1,472,597 | **104.3%** |

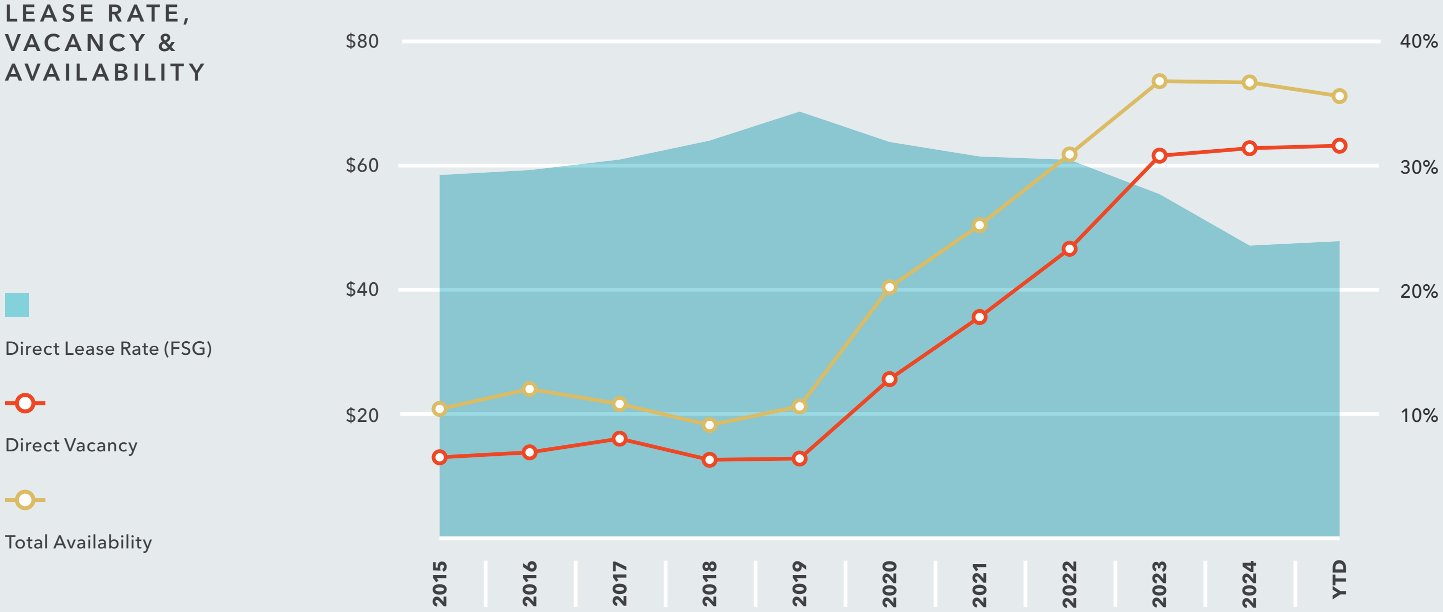
## *Market Highlights*

**NET ABSORPTION** ended the quarter with -356K SF

**LEASING ACTIVITY** totaled ±2.9M SF during the quarter

**OVERALL ASKING RENTS** decreased compared to last year, from $48.58 to $47.82 Full Service Gross

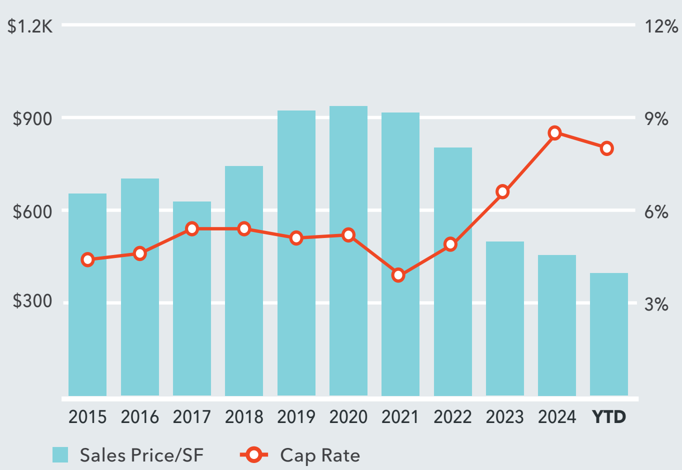
## LEASE RATE, VACANCY & AVAILABILITY



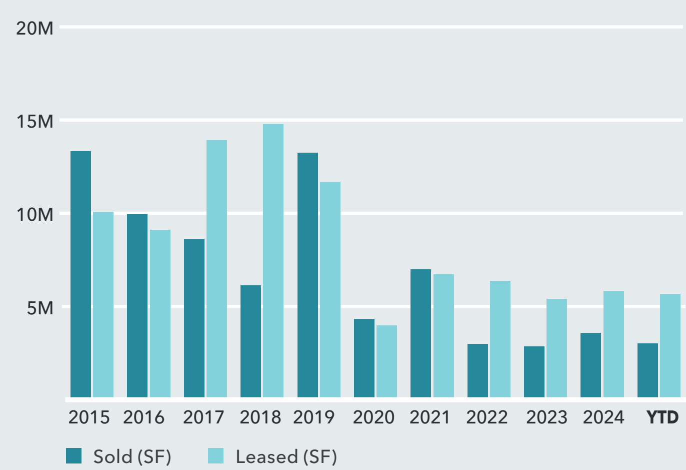


## NET ABSORPTION & NEW DELIVERIES


## 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 | 2Q25 Total Net Absorption | YTD Total Net Absorption | 2Q25 Leasing Activity | YTD Leasing Activity | Direct Rental Rate |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Civic Center | 680,923 | 0 | 30.7% | 0.0% | 30.7% | 24.8% | -8,381 | -20,277 | 3,111 | 3,111 | $31.29 |
| Financial District | 30,408,375 | 0 | 28.2% | 2.6% | 30.7% | 33.3% | -39,318 | -45,347 | 969,766 | 2,083,255 | $48.76 |
| Jackson Square | 2,406,813 | 0 | 18.5% | 0.7% | 19.2% | 20.8% | 45,898 | 79,540 | 146,207 | 186,821 | $43.58 |
| Mid Market | 5,019,910 | 0 | 38.7% | 7.1% | 45.7% | 55.4% | 164,577 | 68,679 | 233,074 | 256,057 | $43.92 |
| Mission Bay/China Basin | 4,362,359 | 0 | 24.1% | 5.1% | 29.2% | 31.2% | 214,279 | -38,228 | 204,616 | 212,518 | $54.55 |
| Mission/Potrero | 1,860,905 | 0 | 16.8% | 1.2% | 18.1% | 17.1% | -66,314 | -61,607 | 138,077 | 165,524 | $40.45 |
| Rincon/South Beach | 6,446,780 | 0 | 20.3% | 9.6% | 29.9% | 40.3% | -184,872 | -240,856 | 156,752 | 872,790 | $44.20 |
| Showplace Square | 4,451,330 | 0 | 20.8% | 9.2% | 30.0% | 38.8% | -25,678 | 86,232 | 100,445 | 242,485 | $41.05 |
| South Financial District | 29,529,365 | 0 | 24.8% | 5.3% | 30.1% | 35.3% | -258,911 | -78,313 | 611,285 | 1,195,711 | $50.48 |
| SOMA | 3,829,881 | 0 | 33.7% | 2.1% | 35.8% | 37.6% | 17,760 | 58,231 | 51,328 | 121,164 | $33.67 |
| Union Square | 5,197,609 | 0 | 31.9% | 1.2% | 33.1% | 33.8% | -27,984 | -11,043 | 89,306 | 121,073 | $43.94 |
| Van Ness Corridor/Chinatown | 1,694,250 | 0 | 18.7% | 0.7% | 19.4% | 21.6% | 8,938 | -981 | 39,436 | 41,386 | $42.83 |
| Waterfront/North Beach | 3,742,499 | 0 | 29.4% | 3.6% | 32.9% | 35.2% | -23,306 | 32,165 | 106,608 | 137,849 | $68.91 |
| Yerba Buena | 3,980,273 | 0 | 41.2% | 8.2% | 49.4% | 51.9% | -172,294 | -442,332 | 14,518 | 40,972 | $41.59 |
| **San Francisco Totals** | **103,611,272** | **0** | **27.1%** | **4.5%** | **31.6%** | **35.6%** | **-355,606** | **-614,137** | **2,864,529** | **5,680,716** | **$47.82** |
| | | | | | | | | | | | |
| Class A | 62,920,040 | 0 | 27.1% | 4.8% | 31.9% | 36.3% | -502,164 | -732,919 | 1,555,974 | 3,500,853 | $52.26 |
| Class B | 33,975,140 | 0 | 28.1% | 4.5% | 32.6% | 36.4% | 151,498 | 101,883 | 1,226,343 | 1,998,644 | $41.44 |
| Class C | 6,716,092 | 0 | 22.2% | 1.2% | 23.4% | 26.3% | -4,940 | 16,899 | 82,212 | 181,219 | $35.48 |

## MARKET DRIVERS CONTINUED

Sublease space, which has recently been a key catalyst for increasing vacancy and availability, decreased by 20% year-over-year, dropping to 6.6M SF, the second straight quarter under 7M SF and the lowest since 2020. All told, sublease availability accounts for approximately 18% of the total available space on the market – significantly lower than the 40%+ in 2020, though still notably 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 sublease space being returned to the landlord and marketed as direct.

## ECONOMIC REVIEW

The Bay Area and San Francisco economies are anchored by the technology industry and currently experiencing tepid job growth, along with a reduction in daytime employment levels due to hybrid employees and remote workers. The unemployment rate for San Francisco County was 3.5% in May, a slight decrease compared to last quarter and a 20 bps increase compared to last year. However, the labor force participation rate declined versus last year, meaning total employment has fallen to a larger degree than unemployment figures suggest. Recent layoffs from both the Professional and Business Services sector and the Technology sector have driven the majority of job losses during the past year according to the California Employment Development Department.

## NEAR-TERM OUTLOOK

With nearly 32M SF of vacancy and almost 37M SF of available space on the market, there is still a ways to go before the office market is back to equilibrium. However, the rate of increase has slowed over the past couple of quarters and the wave of new listings being added to the market appears to have subsided. This coupled with the lack of development and increased demand is expected to drive positive momentum during the second half of 2025. Many are cautiously optimistic that the San Francisco office market will begin to see positive net absorption trends and decreasing vacancy rates in the near term.

While work from home and hybrid work policies will persist, there is expected to be a conscious shift to a more balanced workforce. If this trend continues to gain momentum and employees continue to fill office buildings, the office market will shift to recovery mode sooner than expected. Additionally, the recent administration change in San Francisco is expected to bring much needed policy shifts that will positively impact both the economy and commercial real estate market that could spur future growth in the office market, potentially including office-residential conversions, which would reduce the available supply of office space and, over time, reduce office vacancy. Lastly, expansion in both the technology and AI sectors is expected to provide a spark for future tenant demand activity, while modest growth across all other sectors will likely assist in filling additional voids in vacancy.

## SIGNIFICANT SALE TRANSACTIONS 2Q 2025

| Property | Submarket | SF | Sale Price | $/SF | Buyer | Seller |
|---|---|---|---|---|---|---|
| 300 Howard St | South Financial District | 408,475 | $107,638,781 | $264 | Divco West \| Blackstone | GLL BVK Properties \| CalSTRS |
| 88 Kearny St | Financial District | 233,887 | $74,500,000 | $319 | LendingClub | Nuveen |
| One Front St | Financial District | 667,138 | $63,750,000 | $382 | Beacon Capital Partners | Paramount Group |
| 799 Market St | Yerba Buena | 143,605 | $44,000,000 | $306 | Sansome Street Advisors | ASB Real Estate |
| 1045 Sansome St | Waterfront/North Beach | 83,871 | $28,350,000 | $338 | Bridges Capital | Lincoln Property |

## SIGNIFICANT LEASE TRANSACTIONS 2Q 2025

| Property | Submarket | SF | Transaction Date | Landlord | Tenant |
|---|---|---|---|---|---|
| 1455 Market St | MidMarket | 224,000 | May 2025 | Hudson Pacific Properties | City & County of San Francisco |
| 1090 Dr Maya Angelou Ln | Mission Bay/China Basin | 150,000 | May 2025 | Tishman Speyer | Coinbase |
| 101 California St | Financial District | 112,000 | May 2025 | Hines | Morrison Foerster |
| 555 California St | Financial District | 84,000 | April 2025 | Vornado Realty Trust | Dodge & Cox |
| 300 Mission St | South Financial District | 57,000 | June 2025 | Paramount Group | Instacart |

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

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

The information in this report was composed by the Kidder Mathews Research Group.

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