

## MARKET TRENDS

# SAN FRANCISCO OFFICE

### MARKET DRIVERS

San Francisco's office market continues to show sign of meaningful progress towards recovery fueled primarily by AI and technology firms while supported by renewed interest from traditional office users previously priced out of the city. Annual leasing activity hit its highest total since the pre-pandemic peak at just over 9.8M SF, signaling growing confidence among occupiers and a shift in market sentiment.

However, vacancy remains elevated at 30.1%, down 100 bps since last quarter, marking the eighth straight quarter above 30%. The decline in vacancy coupled with increased leasing activity and tenant demand suggests we are in the early signs of stabilization. While high vacancy levels are likely to persist in the near term, the surge in leasing during 2025 points to a potential inflection point.

Net absorption totaled positive 493,428 SF for the quarter, its first positive quarter since 4Q 2019. This activity brought the 2025 year-end total to -52,481 SF, its strongest annual figure since 2019 and the second straight year with a positive net absorption trend (from -7.2M SF in 2023 to -661,651 in 2024). The Financial District, Showplace Square and Mission/Potrero submarkets led activity for the year, all above 150K SF in positive net absorption for 2025.

Tenant demand continues to be shaped by a mix of large transactions and mid-sized deals, though smaller leases dominate the landscape. Roughly 2% of deals exceeded 50,000 SF for the year, while 65% were under 5,000 SF, reinforcing the trend toward smaller footprints, shorter lease terms, and prolonged decision-making cycles. Many occupiers remain focused on optimizing space amid ongoing economic uncertainty.

The "flight to quality" persists but has evolved. While some tenants prioritize premium Class A buildings and view-oriented suites, where sub-5,000 SF options are scarce. Others seek efficient layouts, creative buildouts, and flexibility at competitive price points. Across the board, tenants are more selective, navigating a market rich with choices.

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## Market Summary

	4Q25	3Q25	4Q24	YOY Change
Direct Vacancy Rate	26.5%	27.0%	26.5%	<b>00 bps</b>
Overall Vacancy Rate	30.1%	31.1%	31.1%	<b>-100 bps</b>
FIDI Direct Lease Rate (A&B)	\$47.99	\$47.95	\$47.11	<b>1.9%</b>
Under Construction (SF)	52,481	52,481	52,481	<b>0.0%</b>
	4Q25	2025	2024	YOY Change
Leasing Activity (SF)	2,389,819	9,885,167	7,163,256	<b>38.0%</b>
Net Absorption (SF)	493,428	-59,913	-661,651	<b>N/A</b>
New Deliveries (SF)	0	0	83,358	<b>N/A</b>
Sale Volume (SF)	4,313,703	8,885,928	3,592,292	<b>147.4%</b>

# 4Q 2025

↑ **2.4M SF**  
LEASING ACTIVITY

↑ **493K SF**  
NET ABSORPTION

↓ **30.1%**  
TOTAL  
VACANCY RATE

↑ **\$47.99**  
ASKING RENT (AVG)

↔ **0 SF**  
NEW DELIVERIES

Year-Over-Year Trend

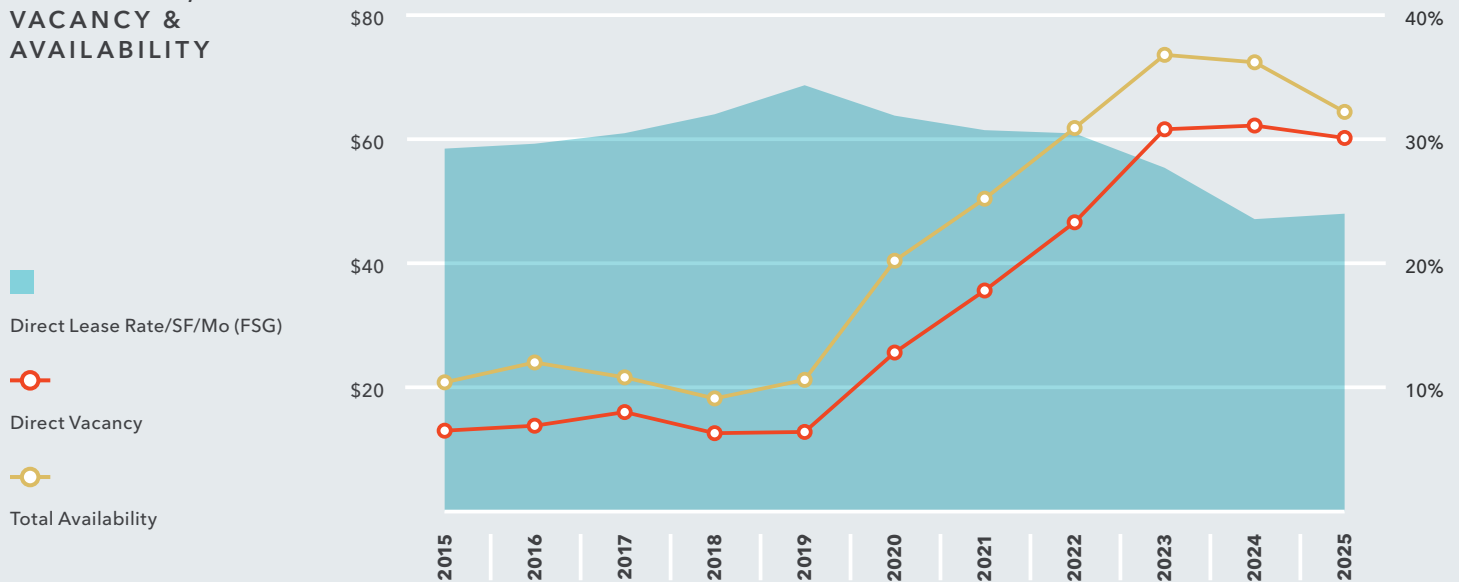
## Market Highlights

**NET ABSORPTION**  
ended the quarter with  
493K SF, marketwide

**LEASING ACTIVITY** totaled  
2.4M SF during the quarter

**OVERALL ASKING RENTS**  
increased compared to last  
year, from \$47.11 to \$47.99  
Full Service Gross

## LEASE RATE, VACANCY & AVAILABILITY



## BIGGEST SALE OF THE QUARTER

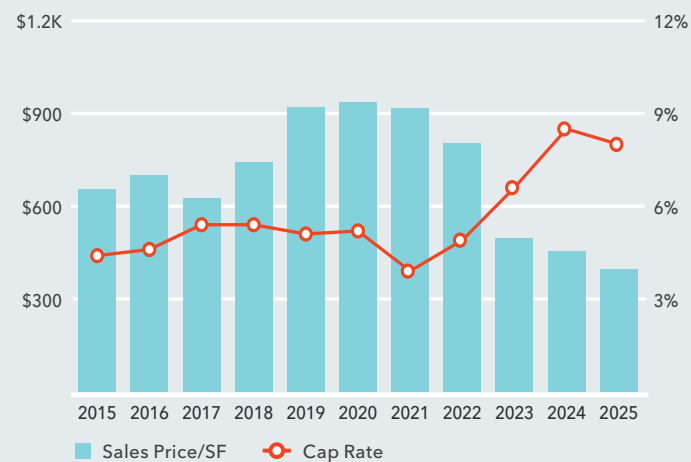
*499 Illinois St, San Francisco*



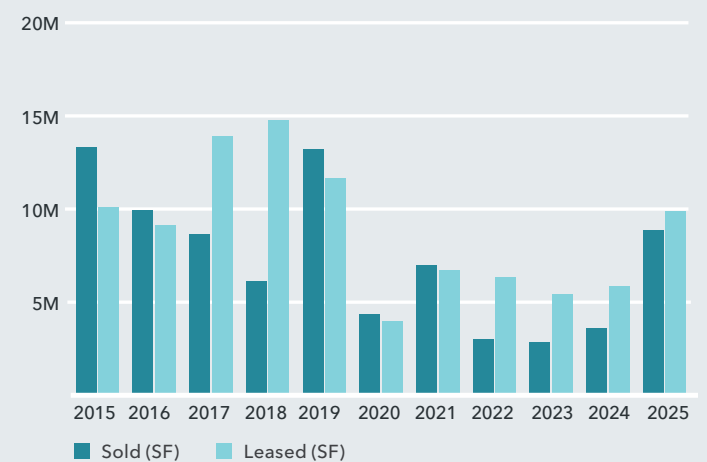
## NET ABSORPTION & NEW DELIVERIES



## 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	4Q25 Total Net Absorption	2025 Total Net Absorption	4Q25 Leasing Activity	2025 Leasing Activity	Direct Rental Rate
Civic Center	639,433	0	26.5%	0.0%	26.5%	20.3%	1,000	-11,661	0	3,111	\$31.29
Financial District	30,385,313	52,481	29.0%	1.9%	30.9%	32.1%	20,262	191,798	719,682	3,413,069	\$49.36
Jackson Square	2,401,804	0	19.6%	0.2%	19.7%	23.0%	50,107	78,210	132,022	355,150	\$43.70
Mid Market	5,013,374	0	36.5%	7.2%	43.8%	50.5%	-27,442	58,869	29,480	349,426	\$43.23
Mission Bay/China Basin	4,515,206	0	14.4%	4.9%	19.3%	22.4%	226,774	170,472	402,442	619,745	\$54.55
Mission/Potrero	1,851,175	0	11.0%	0.5%	11.5%	14.7%	18,540	73,231	12,661	228,063	\$40.85
Rincon/South Beach	6,490,669	0	22.3%	9.4%	31.7%	36.0%	149,388	-288,923	142,215	1,279,845	\$44.12
Showplace Square	4,601,450	0	20.7%	4.7%	25.4%	38.0%	69,001	188,383	2,100	288,382	\$41.05
South Financial District	29,507,262	0	25.2%	4.3%	29.5%	30.4%	-173,258	-252,519	644,208	2,340,365	\$50.52
SOMA	3,825,877	0	29.3%	1.8%	31.2%	32.7%	80,349	61,146	84,086	280,921	\$33.60
Union Square	5,212,676	0	31.7%	0.7%	32.4%	31.8%	37,134	71,713	91,800	285,346	\$43.99
Van Ness Corridor/Chinatown	1,733,995	0	7.6%	0.9%	8.5%	13.2%	8,786	5,637	30,964	93,512	\$42.80
Waterfront/North Beach	3,846,782	0	27.5%	2.3%	29.7%	30.2%	36,551	97,755	90,357	276,353	\$69.44
Yerba Buena	3,980,948	0	40.8%	7.6%	48.3%	52.6%	-3,764	-504,024	7,802	71,879	\$40.98
<b>San Francisco Totals</b>	<b>104,005,964</b>	<b>52,481</b>	<b>26.5%</b>	<b>3.6%</b>	<b>30.1%</b>	<b>32.4%</b>	<b>493,428</b>	<b>-59,913</b>	<b>2,389,819</b>	<b>9,885,167</b>	<b>\$47.99</b>
Class A	62,644,170	52,481	26.1%	3.9%	30.0%	31.7%	324,391	-153,667	1,550,313	6,195,458	\$54.15
Class B	34,495,730	0	28.2%	3.8%	32.0%	35.7%	136,937	53,724	727,048	3,301,250	\$42.58
Class C	6,866,064	0	22.1%	0.4%	22.5%	22.4%	32,100	40,030	112,458	388,459	\$34.84

## MARKET DRIVERS CONTINUED

Sublease availability, a major driver of vacancy in recent years, fell 30% year-over-year to 5.4M SF, marking the third consecutive quarter below 7M SF and the lowest level since early 2020. Sublease space now represents 16% of total availability, down sharply from the 40%+ peak in 2020 but still above the pre-pandemic norm of 14-15%. This decline reflects active leasing, tenants reclaiming space for return-to-office strategies, and conversions of sublease inventory to direct listings.

## ECONOMIC REVIEW

San Francisco's economy is cautiously heading into 2026, though challenges remain. Unemployment sits at 3.9%, slightly lower than the national average. Downtown foot traffic and transit ridership are improving, yet office attendance lags, impacting local businesses. Tourism is rebounding, but international visitor spending remains subdued. The tech sector is regaining momentum, driven by surging demand for AI talent and infrastructure. San Francisco remains a global hub for innovation, even as companies balance expansion with caution amid economic uncertainty.

## NEAR-TERM OUTLOOK

With 30.8M SF of vacant space and nearly 33.5M SF available, headwinds persist. However, recent leasing strength suggests the market may have bottomed out earlier this year. Many analysts expect a gradual return to positive net absorption and incremental vacancy declines through 2026, supported by strong tenant activity, limited new construction, and rising demand.

Workplace trends continue to evolve. Hybrid models dominate, with most employees commuting Tuesday through Thursday, driving a noticeable uptick in downtown activity and fostering a cultural shift toward in-person collaboration. While pre-pandemic norms remain distant, employers are actively balancing flexibility with operational efficiency.

Policy changes under the new city administration are poised to bolster economic conditions and reshape the commercial real estate landscape, laying the foundation for sustained recovery and future growth.

## SIGNIFICANT SALE TRANSACTIONS 4Q 2025

Property	Submarket	SF	Sale Price	\$/SF	Buyer	Seller
499 Illinois St	Mission Bay/China Basin	230,853	\$316,896,577	\$1,373	UCSF Health	Alexandria R.E. Equities
600 California St	Financial District	403,629	\$130,000,000	\$322	Lone Star Funds	WeWork Capital Adv., LLC
667 Mission St	South Financial District	160,164	\$90,000,000	\$562	First Citizens Bank	Align R.E.   Vanke Hldgs, LLC
1660-1670 Mission St	South of Market	108,520	\$18,500,000	\$170	City & County of S.F.	Market Street Capital Inv., LLC
1101-1107 Market St	MidMarket	60,000	\$6,750,000	\$113	Ramosa, LLC	Odd Fellows Hall Association

## SIGNIFICANT LEASE TRANSACTIONS 4Q 2025

Property	Submarket	SF	Transaction Date	Landlord	Tenant
185 Berry St	Mission Bay/China Basin	250,000	November 2025	JPMorgan Chase	Sierra
1090 Dr Maya Angelou Ln	Mission Bay/China Basin	45,000	October 2025	Mitsui Fudosan America	NVIDIA
400-430 California St	Financial District	43,000	November 2025	Kennedy Wison	Rippling
201 Mission St	South Financial District	42,000	October 2025	LaSalle Investment Mgmt.	Vercel
560 Davis St	Jackson Square	26,000	November 2025	GAW Capital Advisors	Generate Capital

## SIGNIFICANT DEVELOPMENT PROJECTS

Property	Submarket	SF	Owner	Status	Delivery Date
545 Sansome	Financial District	52,481	Aegon USA Realty Advisors	Under Construction	1Q 2026

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



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

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COMMERCIAL  
BROKERAGE

\$9B

AVERAGE ANNUAL  
TRANSACTION VOLUME

26.2M

ANNUAL  
SALES SF

36.7M

ANNUAL  
LEASING SFASSET  
SERVICES

53M SF

MANAGEMENT  
PORTFOLIO SIZE

800+

ASSETS UNDER  
MANAGEMENT

250+

CLIENTS  
SERVEDVALUATION  
ADVISORY

2,400+

AVERAGE ANNUAL  
ASSIGNMENTS

41

TOTAL  
APPRAISERS

23

WITH MAI  
DESIGNATIONS