

MARKET TRENDS

SAN FRANCISCO OFFICE

MARKET DRIVERS

The San Francisco office market continued to make solid strides in its recovery cycle, driven by AI and technology firms, complemented by a resurgence of traditional office users who were previously priced out of the San Francisco market. Leasing activity is on track to reach its highest annual total since the pre-pandemic peak, signaling renewed momentum and increasing confidence among occupiers in the region.

While the overall vacancy rate remained elevated at 31.1%, marking the eighth consecutive quarter above 30%. This was a decrease from 31.6% last quarter and a decline from 31.9% last year. Although elevated vacancy levels are expected to persist in the near term, the recent uptick in leasing activity during the first three quarters of 2025 signals a potential shift.

Overall leasing in 2025 has been quite strong, averaging 2.5M SF per quarter with a year-to-date total of 7.5M SF. While 3Q activity was a bit below the previous two quarters, this increase represents the strongest performance since 2019 and is more than 46% higher than the first three quarters of last year. Unlike the previous two quarters with high levels of leasing and negative net absorption, 3Q 2025 experienced positive net absorption with 60,796 SF bringing the year-to-date figure to -553,341 SF. Activity levels during the quarter were highest in the Financial District and Mission/Potrero and from the Class A product.

Tenant activity was driven by a few large transactions and several mid-sized deals, though smaller leases continue to dominate the landscape. Approximately 2% of the year-to-date transactions were over 50,000 SF while 63% were under 5,000 square feet, underscoring a sustained trend toward smaller footprints, shorter lease terms, and extended decision-making timelines. Many tenants remain focused on rightsizing their space in response to ongoing economic uncertainty.

The “flight to quality” remains a defining theme, though its interpretation has evolved. While some tenants continue to prioritize Class A buildings and premium view spaces in core submarkets—where sub-5,000 square foot view suites are in extremely limited supply—others are seeking efficient layouts, creative buildouts, or greater flexibility and value. Across the board, tenants are demonstrating increased discernment in their search criteria, navigating a market with abundant options.

continued on page 3

Market Summary

	3Q25	2Q25	3Q24	YOY Change
Direct Vacancy Rate	27.0%	27.1%	26.8%	20 bps
Overall Vacancy Rate	31.1%	31.6%	31.9%	-80 bps
FIDI Direct Lease Rate (A&B)	\$47.95	\$47.82	\$47.17	1.7%
Under Construction (SF)	0	52,481	0	N/A
	3Q25	2025 YTD	2024 YTD	YOY Change
Leasing Activity (SF)	1,814,632	7,495,348	5,123,900	46.3%
Net Absorption (SF)	60,796	-553,341	-1,026,589	N/A
New Deliveries (SF)	0	0	83,358	N/A
Sale Volume (SF)	820,651	3,958,706	2,205,625	79.5%

3Q 2025

↑ **1.8M SF**
LEASING ACTIVITY

↑ **61K SF**
NET ABSORPTION

↓ **31.1%**
TOTAL
VACANCY RATE

↑ **\$47.95**
ASKING RENT (AVG)

↔ **0 SF**
NEW DELIVERIES

Year-Over-Year Trend

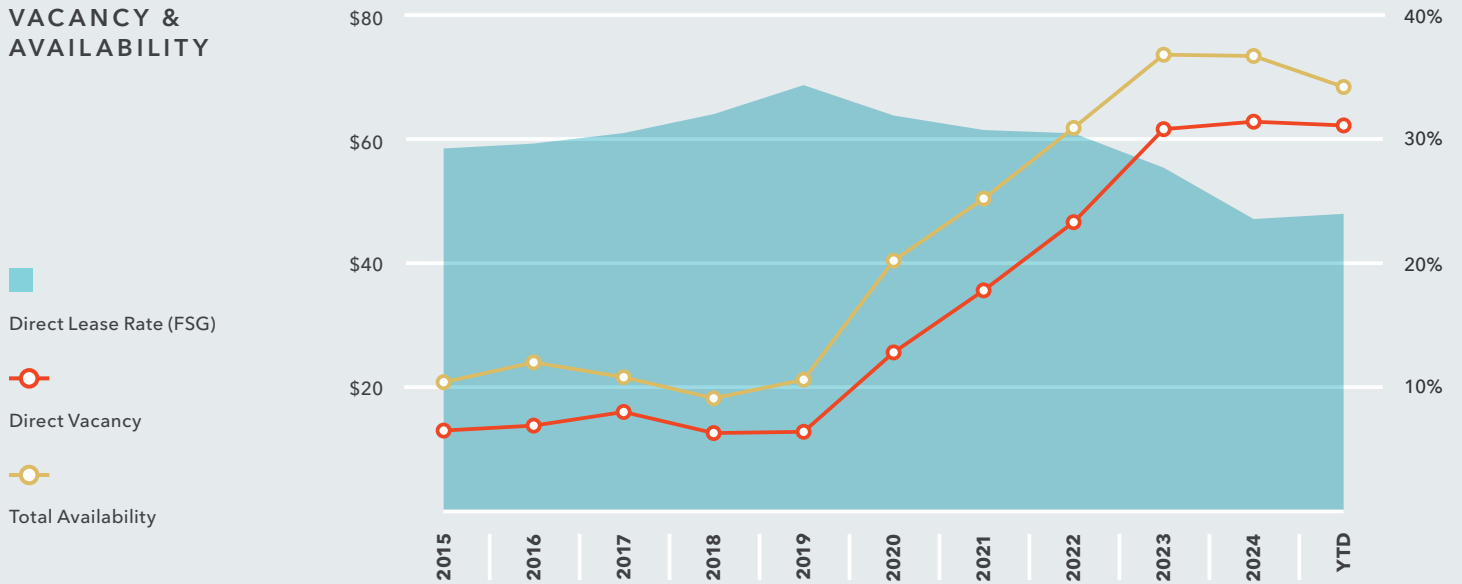
Market Highlights

NET ABSORPTION
ended the quarter with
61K SF, marketwide

LEASING ACTIVITY totaled
±1.8M SF during the quarter

OVERALL ASKING RENTS
decreased compared to last
year, from \$47.17 to \$47.95
Full Service Gross

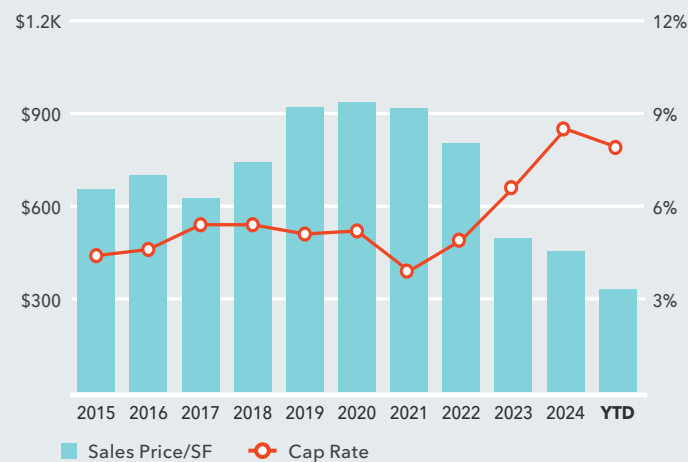
LEASE RATE, VACANCY & AVAILABILITY



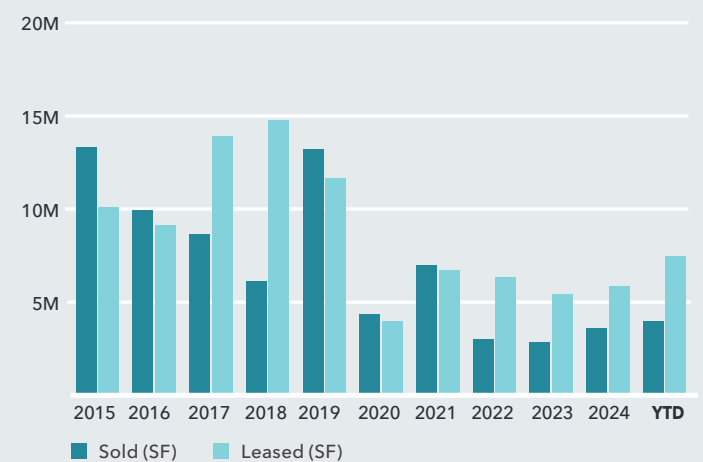
NET ABSORPTION & NEW DELIVERIES



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	639,433	0	26.7%	0.0%	26.7%	20.4%	7,616	-12,661	0	3,111	\$31.29
Financial District	30,385,313	0	27.4%	2.5%	30.0%	33.0%	216,883	171,536	610,132	2,693,387	\$48.76
Jackson Square	2,401,804	0	20.8%	0.7%	21.5%	24.8%	-51,437	28,103	36,307	223,128	\$43.58
Mid Market	5,013,374	0	37.0%	7.1%	44.1%	53.1%	17,632	86,311	63,889	319,946	\$43.40
Mission Bay/China Basin	4,515,206	0	23.6%	4.9%	28.6%	31.2%	-18,074	-56,302	4,785	217,303	\$54.55
Mission/Potrero	1,851,175	0	10.9%	1.5%	12.4%	13.3%	116,298	54,691	49,878	215,402	\$40.45
Rincon/South Beach	6,490,669	0	24.2%	9.2%	33.4%	36.4%	-197,455	-438,311	264,840	1,137,630	\$44.56
Showplace Square	4,601,450	0	22.9%	5.3%	28.2%	37.0%	33,150	119,382	43,797	286,282	\$41.05
South Financial District	29,507,262	0	24.7%	5.2%	29.9%	33.4%	-948	-79,261	500,446	1,696,157	\$50.65
SOMA	3,825,877	0	34.8%	1.8%	36.6%	37.5%	-77,434	-19,203	75,671	196,835	\$34.43
Union Square	5,212,676	0	31.3%	1.1%	32.4%	33.8%	45,622	34,579	72,473	193,546	\$44.67
Van Ness Corridor/Chinatown	1,733,995	0	15.2%	0.9%	16.1%	18.3%	-2,168	-3,149	21,162	62,548	\$42.92
Waterfront/North Beach	3,846,782	0	28.0%	3.3%	31.3%	33.3%	29,039	61,204	48,147	185,996	\$68.90
Yerba Buena	3,980,948	0	43.0%	7.9%	50.9%	51.9%	-57,928	-500,260	23,105	64,077	\$41.58
San Francisco Totals	104,005,964	0	27.0%	4.2%	31.1%	34.5%	60,796	-553,341	1,814,632	7,495,348	\$47.95
Class A	62,644,170	0	26.5%	4.6%	31.0%	34.6%	254,861	-478,058	1,144,292	4,645,145	\$53.74
Class B	34,495,730	0	28.8%	4.1%	32.9%	35.9%	-185,096	-83,213	575,558	2,574,202	\$42.08
Class C	6,866,064	0	22.5%	0.9%	23.4%	25.6%	-8,969	7,930	94,782	276,001	\$35.37

MARKET DRIVERS CONTINUED

Sublease availability, a key contributor to elevated vacancy in recent years, declined 25% year-over-year to 6.0 million square feet. This marks the third consecutive quarter below 7 million square feet and the lowest level since early 2020. Sublease space now accounts for approximately 17% of total availability—down significantly from the 40%+ peak in 2020, though still above the pre-COVID average of 14–15%. This reduction is attributable to new leasing activity, tenants reclaiming space to support return-to-office strategies, and sublease inventory being converted to direct listings.

ECONOMIC REVIEW

San Francisco's economy in late 2025 shows signs of cautious recovery amid persistent challenges. Unemployment hovers around 4.6%, slightly above the national average. Downtown foot traffic and transit ridership are rebounding, yet office attendance remains low, impacting local businesses. Tourism is improving, though international visitor spending is down. San Francisco's tech sector is rebounding in 2025, driven by surging demand for AI talent and infrastructure.

The Bay Area added over 75,000 tech jobs recently, with AI-related roles growing 24% year-over-year. Companies are shifting from mass hiring to strategic recruitment and venture capital continues to flow heavily into AI startups, fueling office space expansion and long-term growth plans. San Francisco remains a top destination for innovation, though companies are balancing growth with caution amid economic uncertainty.

NEAR-TERM OUTLOOK

With approximately 32M SF of vacant office space and nearly 36M SF currently available, San Francisco's office market continues to face significant headwinds. However, recent leasing momentum suggests the market may have reached bottom earlier this year. Driven by strong tenant activity, limited new development, and rising demand, the outlook is increasingly optimistic. Analysts anticipate a shift toward positive net absorption and a gradual decline in vacancy rates as we move into 2026.

Workforce dynamics are also evolving. Hybrid work models now account for over 60% of employment arrangements, with most employees commuting Tuesday through Thursday. This new rhythm has led to a noticeable uptick in downtown foot traffic and a cultural shift back toward in-person collaboration. While pre-pandemic activity levels remain distant, employers are actively balancing flexibility with operational efficiency.

Additionally, recent policy changes under the new city administration are expected to positively influence both economic conditions and the commercial real estate landscape, laying the groundwork for sustained recovery and future growth.

SIGNIFICANT SALE TRANSACTIONS 3Q 2025

Property	Submarket	SF	Sale Price	\$/SF	Buyer	Seller
505 Montgomery St	Financial District	350,786	\$105,000,000	\$299	Peninsula Land & Capital, LLC	RREEF America
600 Townsend St	Showplace Square	208,259	\$54,100,000	\$260	Lincoln Property Company	Toda America
180 Redwood St	Civic Center	49,466	\$13,250,000	\$268	SEIU	Golden Van Building, LLC
111 Ellis St	Union Square	21,412	\$7,800,000	\$364	71 Powell, LLC	Gladyne K Mitchell Living Trust
1161 Mission St	MidMarket	65,659	\$7,275,000	\$111	Parinas Prime Properties, LLC	FAME Mission Real Estate, LLC

SIGNIFICANT LEASE TRANSACTIONS 3Q 2025

Property	Submarket	SF	Transaction Date	Landlord	Tenant
505 Montgomery St	Financial District	110,600	August 2025	DWS Group	Latham & Watkins, LLP
505 Howard St	South Financial District	104,300	September 2025	American Realty Advisors	Anthropic
270 Brannan St	Rincon.South Beach	98,200	July 2025	Mitsui Fudosan Investment Advisors	Brex
201 Third St	South Financial District	92,800	July 2025	Kilroy Realty	Harvey AI
633 Folsom St	Rincon.South Beach	55,700	September 2025	The Swig Company	Kikoff

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



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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>53M SF</i> MANAGEMENT PORTFOLIO SIZE	<i>800+</i> ASSETS UNDER MANAGEMENT	<i>250+</i> CLIENTS SERVED
VALUATION ADVISORY	<i>2,400+</i> AVERAGE ANNUAL ASSIGNMENTS	<i>39</i> TOTAL APPRAISERS	<i>24</i> WITH MAI DESIGNATIONS