MARKETBEAT

SAN FRANCISCO

OFFICE Q3 2025

CUSHMAN & WAKEFIELD

MARKET FUNDAMENTALS

	YOY Chg	Outlook
33.6% Vacancy Rate	▼	▼
343K YTD Net Absorption, SF	▲	▲
$67.34 Asking Rent, PSF	▼	▼

(Overall, All Property Classes)

ECONOMIC INDICATORS

	YOY Chg	Outlook
1.1M San Francisco Metro Employment	▼	▼
3.8% San Francisco Metro Unemployment Rate	—	▲
4.3% U.S. Unemployment Rate	▲	▲

Source:BLS

ECONOMY: Renewed Market Momentum

In the third quarter of 2025, the San Francisco office market generated renewed momentum, with positive absorption and rising leasing activity, two trends that had been largely absent since 2019. Job growth, however, remained sluggish, as the unemployment rate for the San Francisco metro division (San Francisco and San Mateo counties) held steady year-over-year (YOY) at 3.8%. Despite increased hiring by artificial intelligence (AI) companies, total nonfarm employment declined by 0.4% YOY. Venture capital (VC) funding for San Francisco-based companies far outpaced all other markets across the Americas, totaling $98.3 billion (B) in the first three quarters of 2025, well above the second-highest market, the New York City metro area, at $23.7B. AI companies continued to be the primary driver of VC funding, accounting for 80.4% of global investment within that sector.

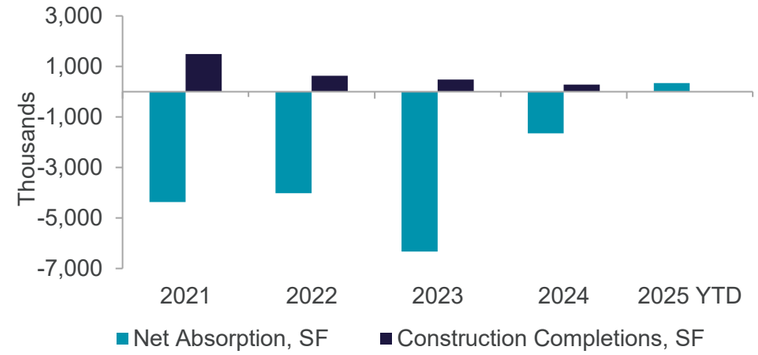
SUPPLY: Positive Absorption for the Year

The overall vacancy rate at the end of the third quarter of 2025 was 33.6%, dropping 20 basis points (bps) from the previous quarter and down 90 bps from the rate of 34.5% one year ago. Direct vacancy remained largely unchanged from the previous quarter at 23.4 million square feet (msf). Sublease vacancy fell to 5.6 msf, marking the fifth consecutive quarterly decline, driven by heightened leasing activity from tech and AI startups pursuing short-term opportunities. Overall absorption ended the quarter in positive territory and remains positive year-to-date, putting 2025 on track to be the first year of positive absorption since 2019. This improvement reflects the strength of new leasing activity, which continues to translate into increased move-ins, many with immediate occupancy.

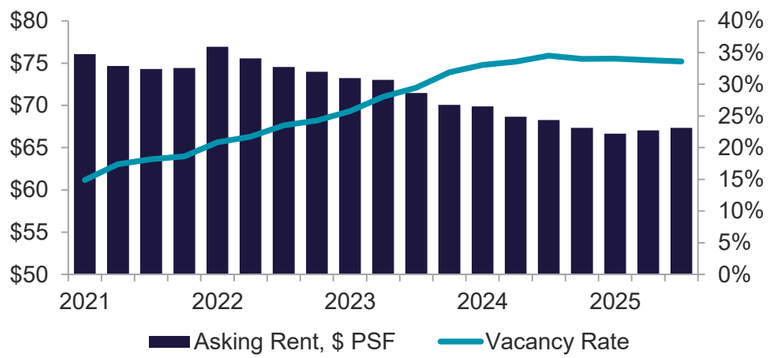
PRICING: Asking Rates Remain Strong in Premium Assets

San Francisco's overall average asking rent ended the third quarter at $67.34 per square foot (psf) on an annual gross basis, up $0.31 from $67.03 psf in the second quarter of 2025. In the Central Business District (CBD), Class A rents inched higher to $73.98 psf, while Non-CBD Class A rents also climbed to $67.05 psf, reflecting a $0.50 quarterly gain. Driven by a much lower vacancy rate of just 10.2%, Class A Tier 1 asking rents remained robust, closing the quarter at $104.88 psf, underscoring sustained demand for premium office space. Asking rent disparities are expected to widen further, with sustained demand driving rate growth among premium assets. Meanwhile, older buildings with non-view, commodity vacancies continue to lower asking rates or increase incentives and concessions to remain competitive.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



SAN FRANCISCO
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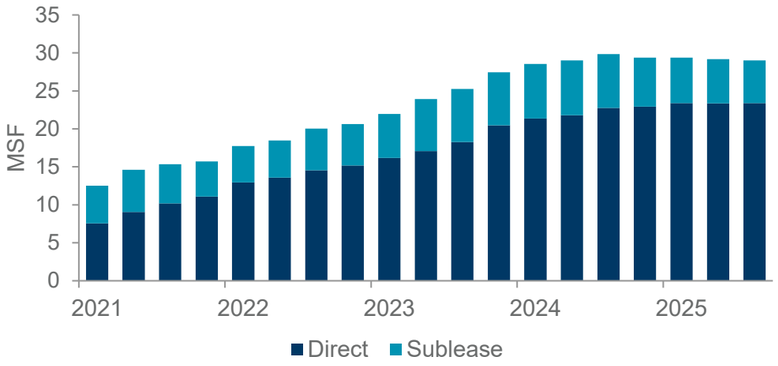
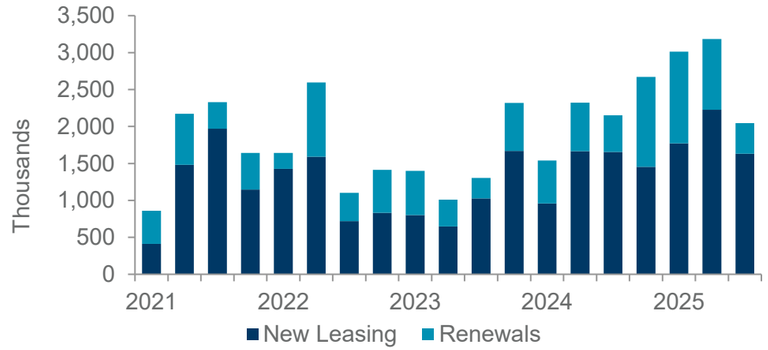
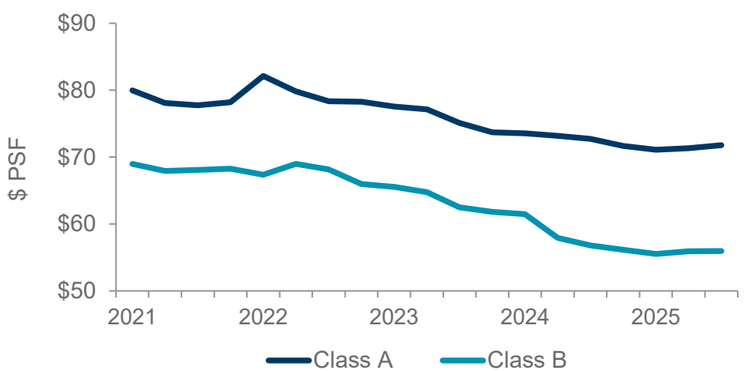
DIRECT VS. SUBLEASE VACANT SPACE COMPARISON



LEASING ACTIVITY



OVERALL ASKING RENT COMPARISON



DEMAND: Technology Drives Demand

In the third quarter, citywide leasing activity (new leasing and renewals) reached 2.0 msf, down from 3.2 msf in the previous quarter. New leasing alone in the third quarter totaled 1.6 msf, representing 79.8% of overall activity. The annual leasing figure has already reached 8.2 msf, just shy of the 2024 total of 8.7 msf and 37.1% higher than the same period last year, putting 2025 on pace to approach 2019 levels. Leasing activity this quarter was heavily concentrated in Class A properties, which accounted for 79.1% of total volume, or 1.6 msf. The CBD continued to lead overall leasing with 1.5 msf, representing 73.7% of the total. The largest new lease in the CBD this quarter was completed by Anthropic, which expanded its footprint by 104,000 sf at 505 Howard Street. Combined with its existing space at 500 Howard, Anthropic now occupies more than 335,000 sf in the South Financial District.

New leasing activity continued to be driven primarily by technology firms and professional services companies, which accounted for 75.7% and 19.8% of total activity, respectively. Within the technology sector, demand was led by AI companies and tech startups. In addition to Anthropic's expansion, notable new leases included fintech company Brex's 98,000-sf new lease in SoMa and legal AI software firm Harvey's lease for nearly 93,000 sf in the South Financial District.

At the end of the third quarter, San Francisco had 269 active tenant requirements totaling 7.0 msf. Technology groups accounted for approximately 49.4% of this demand, representing a 66.7% YOY increase in the number of tech tenants in the market. Overall, both the number of active requirements and the total square footage in demand rose from the previous quarter, with the strongest growth among tenants seeking space between 25,000 and 50,000 sf.

SALES:

During the third quarter, there were eight sale transactions, including three loan sales. Notable deals included the purchase of 420 Montgomery Street by REDCO, the former Wells Fargo headquarters, which traded for $55 million, or $134 psf. The largest transaction by volume was the sale of 505 Montgomery Street, which sold for $105 million, or $299 psf, and was purchased by Peninsula Land & Capital. The investment market has reached a turning point, effectively resetting San Francisco property values and shifting the pricing band. While high-net-worth buyers and specialized investors remain active, the investment sales market is also seeing renewed interest from traditional capital sources and institutional investors.

OUTLOOK

- With absorption remaining positive both for the quarter and year-to-date, 2025 is on track to mark the first full year of positive absorption since 2019.
- Regional transit ridership is improving, supported in part by the ongoing return-to-office trend, and is expected to continue rising as office activity strengthens.
- Asking rent disparities are expected to widen further, with sustained demand driving rate growth for premium assets, as reflected by rising rents in the trophy building segment.

MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
North Financial District	26,756,186	778,658	8,052,258	33.0%	69,934	285,749	3,035,893	0	$69.67	$74.50
South Financial District	28,299,097	2,010,506	7,305,047	32.9%	-151,710	-20,982	3,106,052	0	$72.70	$73.62
CBD TOTALS	55,055,283	2,789,164	15,357,305	33.0%	-81,776	264,767	6,141,945	0	$71.30	$73.98
Jackson Square	2,044,625	33,833	365,606	19.5%	-28,284	53,867	215,165	0	$60.29	$68.62
Mid-Market	4,760,223	846,324	1,413,624	47.5%	-2,187	-378,763	305,406	0	$43.77	$45.57
Mission Bay	2,350,585	0	214,971	9.1%	70,791	70,791	159,761	0	$125.50	$125.50
North Waterfront	3,369,214	215,268	859,109	31.9%	54,955	57,929	230,190	0	$60.87	$65.71
Showplace Square/Potrero Hill	4,022,431	740,650	488,613	30.6%	106,432	266,553	350,601	0	$59.57	$61.68
SoMa	9,232,244	939,465	3,745,620	50.7%	28,846	-45,534	641,819	0	$67.88	$75.17
The Presidio	1,097,624	0	15,894	1.4%	9,666	7,916	12,954	0	$0.00	$0.00
Third Street Corridor	406,482	0	0	0.0%	0	0	0	0	$0.00	$0.00
Union Square	3,304,235	52,819	816,065	26.3%	5,215	43,735	163,253	0	$54.39	$68.03
Van Ness Corridor	728,356	1,000	129,370	17.9%	-6,750	2,110	20,502	0	$41.56	$46.11
NON-CBD TOTALS	31,316,019	2,829,359	8,048,872	34.7%	238,684	78,604	2,099,651	0	$60.80	$67.05
SAN FRANCISCO TOTALS	86,371,302	5,618,523	23,406,177	33.6%	156,908	343,371	8,241,596	0	$67.34	$71.76

**Rental rates reflect full service asking*

KEY LEASE TRANSACTIONS Q3 2025

PROPERTY	SUBMARKET	TENANT	SF	TYPE
505 Montgomery Street	North Financial District	Latham Watkins	119,812	Renewal
505 Howard Street	South Financial District	Anthropic	104,336	New Lease
270 Brannan Street	SOMA	Brex	98,238	New Lease
201 Third Street	South Financial District	Harvey	92,814	New Lease
633 Folsom Street	South Financial District	Kikoff	55,668	Sublease
201 Mission Street	South Financial District	Vercel	42,147	Sublease
560 Mission Street	South Financial District	ARUP	40,473	Renewal
1355 Market Street	Mid-Market	Motive AI	40,305	Sublease

KEY SALE TRANSACTIONS Q3 2025

PROPERTY	SUBMARKET	SELLER/BUYER	SF	PRICE / $PSF
420 Montgomery Street	North Financial District	Wells Fargo / REDCO Development	409,013	$55M / $134
505 Montgomery Street	North Financial District	DWS Group / Peninsula Land & Capital LLC	350,786	$105M / $299
600 Townsend Street - West	Showplace Square/Potrero Hill	Toda America / Lincoln Property Company & New York Life	208,259	$54M / $260

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