

NEWMARK

San Francisco Office Market Overview

1Q26



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Key Takeaways

The San Francisco office market posted historic results this quarter, with leasing activity surpassing all but one quarter on record and net absorption reaching its highest level ever recorded.

4.2 MSF leasing activity	1.5 MSF net absorption	9.7 MSF tenant demand	390 bps vacancy drop YoY

San Francisco Market Observations

Economy

- San Francisco's AI-driven surge is accelerating the recovery of the central business district, though ongoing tech layoffs continue to weigh on overall job growth, which is expected to rise at a slower-than-historical pace due to increasing automation. The San Francisco–San Mateo region saw a modestly faster decline in unemployment than the U.S. overall this quarter.
- The U.S. Consumer Price Index (CPI) inflation rate rose to 3.3% in March, up from 2.4% in February, driven largely by a 10.9% increase in energy costs resulting from the conflict with Iran.
- Economists maintain projections for one additional interest rate cut in 2026, noting that the Federal Reserve is expected to look beyond the recent energy-driven inflation spike linked to ongoing geopolitical tensions.

Leasing Market Fundamentals

- First-quarter absorption of positive 1.5 million square feet marked the highest quarter of positive absorption in San Francisco ever recorded. This was largely driven by Class A absorption in the South Financial District, which accounted for 730,000 square feet.
- Total leasing for the quarter exceeded 4.2 million square feet, the second strongest leasing quarter ever in San Francisco, behind Q2 2014. Tenant demand remains strong at 9.7 million square feet.
- Overall availability decreased by 290 basis to 30.5% quarter-over-quarter, while vacancy declined by 150 basis points to 27.9%.
- Average direct asking rents rose to $67.77 per square foot, up 0.3% quarter over quarter.

Major Transactions

- The largest new lease of the quarter was Anthropic's 484K square foot lease at 300 and 342 Howard. Other new leases this quarter included Together AI's 148K square foot lease at 2 Henry Adams St and Crusoe's 130K square foot lease at 225 Bush St.
- The largest renewal signed in Q1 was LinkedIn, renewing on the 9-15th floors at 222 2nd St.
- Open AI took the largest sublease for the quarter, subleasing 282K square feet from Dropbox at 1800 Owens.
- The Transamerica Pyramid Center traded for $600 million ($1,170 per square foot), acquired by Cyprus-based Yoda PLC in its first U.S. purchase.

Outlook

- Artificial intelligence and technology companies represent just over half of current demand, and traditional tenant demand is at its highest level since 2013 at 4.6 million square feet.
- Premium options in the CBD are becoming increasingly scarce, with full-floor spaces in particular growing more sought after and limited in availability. As a result, tenants are beginning to consider alternative options in SOMA and other submarkets.
- Competition for sought-after availabilities is increasing landlord leverage, with owners pushing for longer lease terms and stronger economics. As demand grows and availability decreases, it is expected that landlords with spec suites will have more negotiating power throughout 2026.

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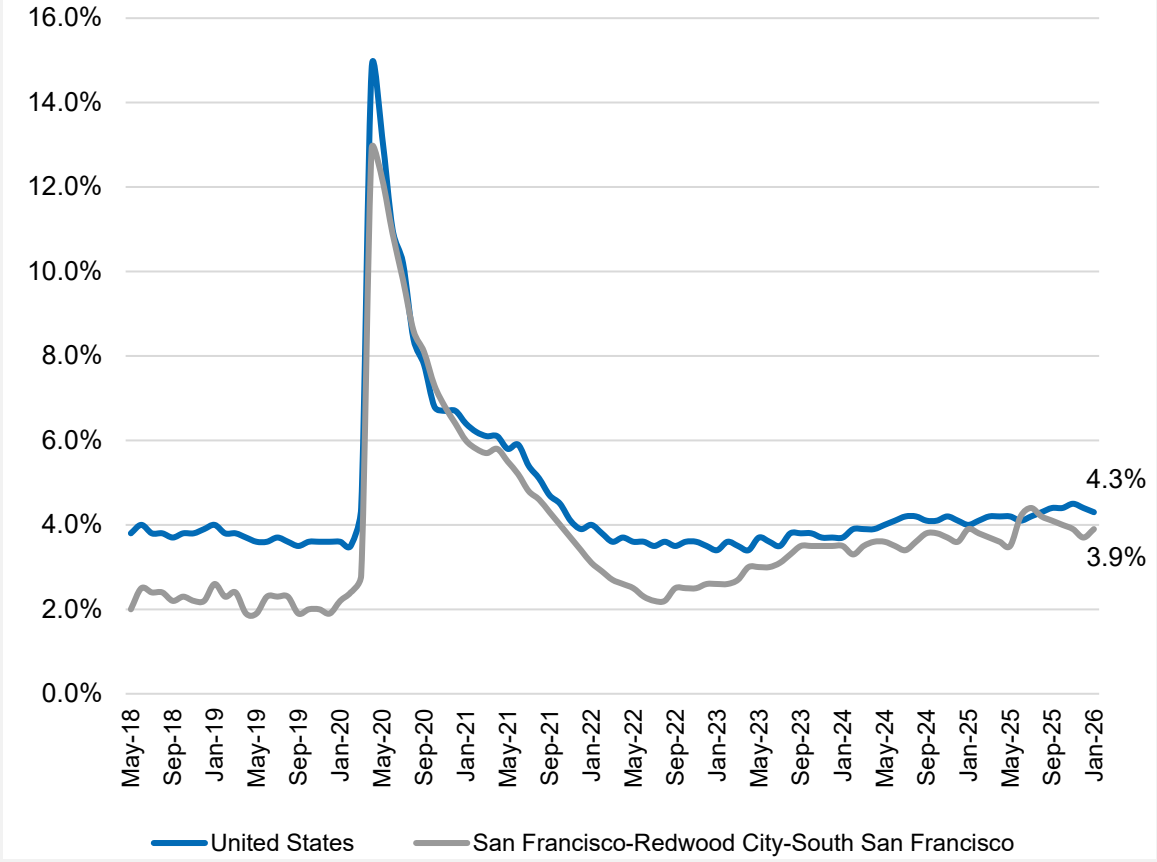
Economy



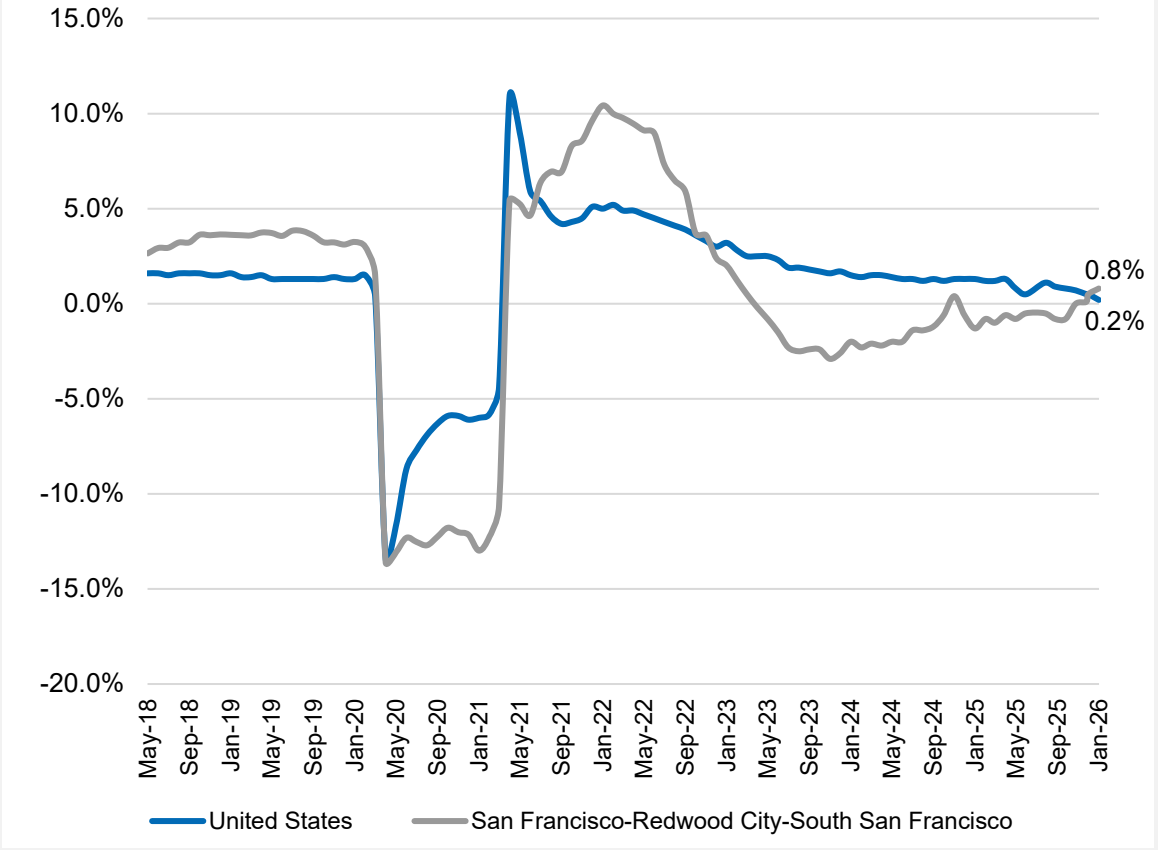
Regional Unemployment Remains Below National Average

The region's unemployment rate declined by 20 basis points between September 2025 and January 2026, while the U.S. rate decreased by 10 basis points during the same period. In January, the region’s unemployment rate was 150 basis points below the California average, which stood at 5.4%.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Seasonally Adjusted, 12-Month % Change

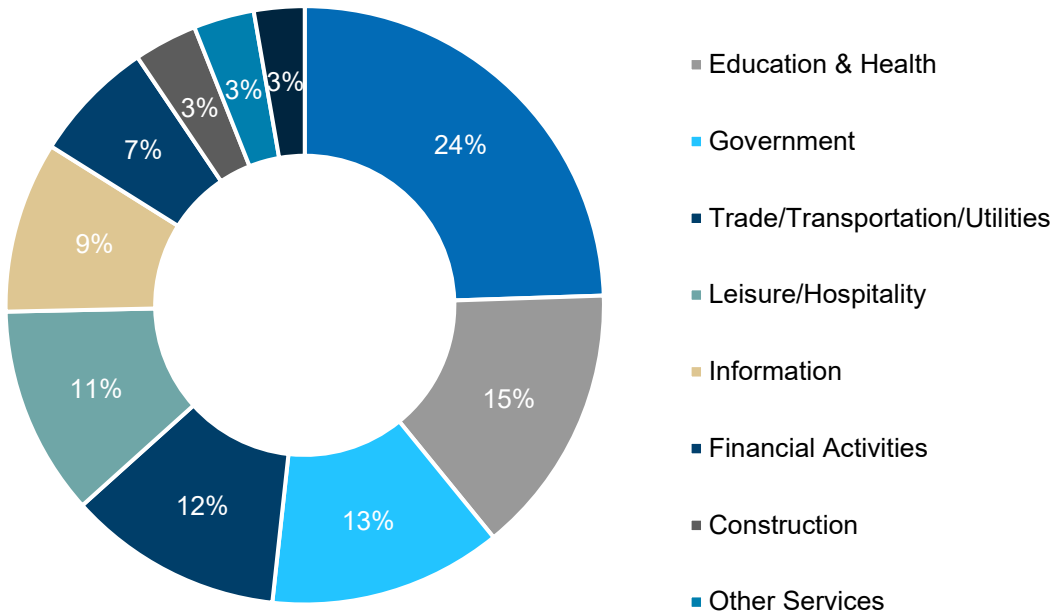


Source: U.S. Bureau of Labor Statistics, San Francisco-Redwood City-South San Francisco

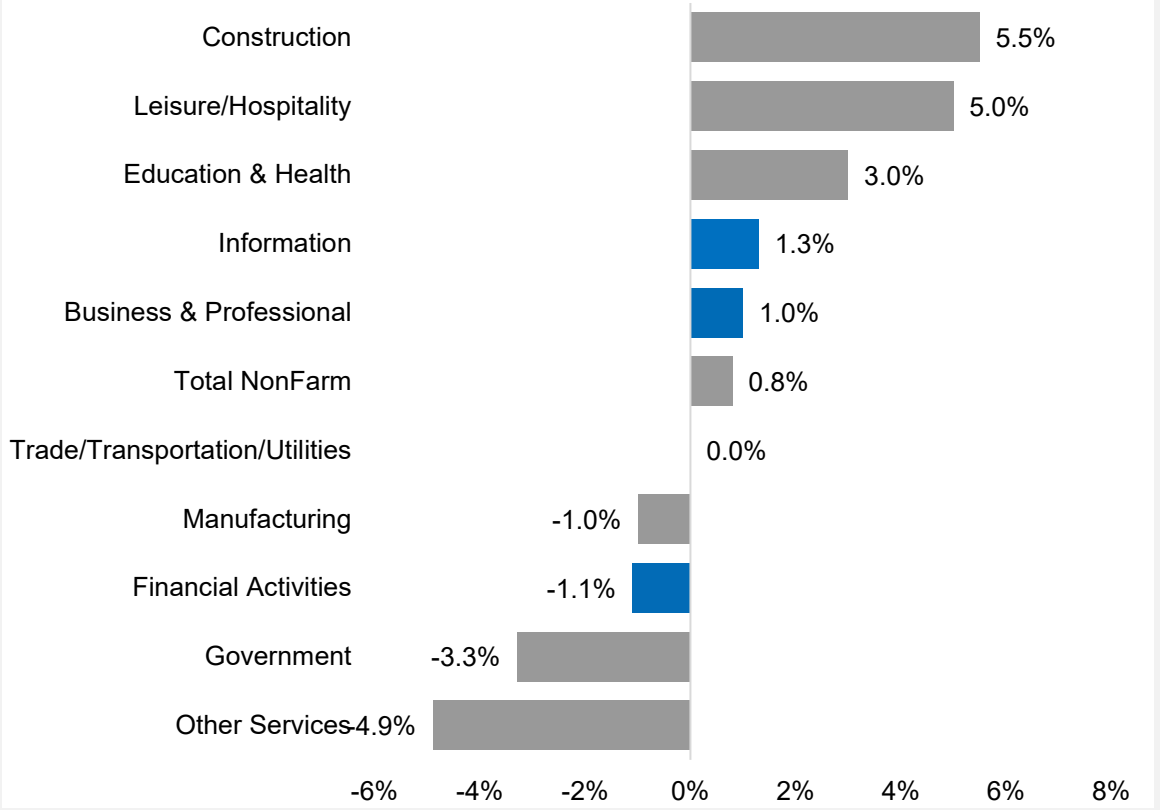
Office-Using Employment Posts Modest Year-Over-Year Gains

While office-using employment was positive on a year-over-year basis, it declined quarter-over-quarter. Leasing activity from tech and AI firms has helped reinvigorate demand, which should support further gains over time. Office-using employment is poised to grow, but automation is expected to temper the pace below long-run historical trends.

Employment by Industry, January 2026



Employment Growth by Industry, 12-Month % Change, January 2026

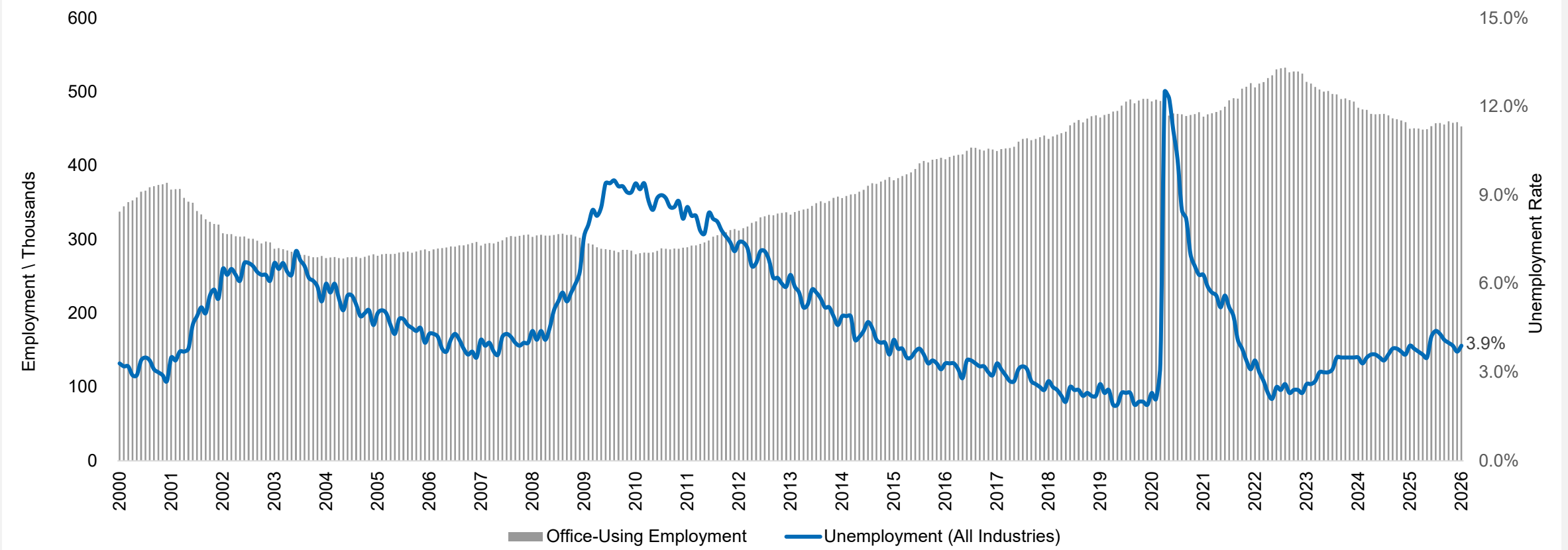


Source: U.S. Bureau of Labor Statistics, San Francisco-Redwood City-South San Francisco. Data is preliminary.

Dip in Office-Using Employment Quarter over Quarter Amid Tech Sector Adjustments

Office-using employment continued its decline into 1Q26, extending a contraction that began after the early 2023 peak. Tech-sector cost-cutting and restructuring have been the primary drivers. Still, early signs suggest the market may be nearing a turning point: improving macroeconomic conditions and steady hiring in high-growth sectors such as artificial intelligence and clean energy point to potential stabilization in the quarters ahead.

Office-Using Employment* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, San Francisco-Redwood City-South San Francisco
*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.



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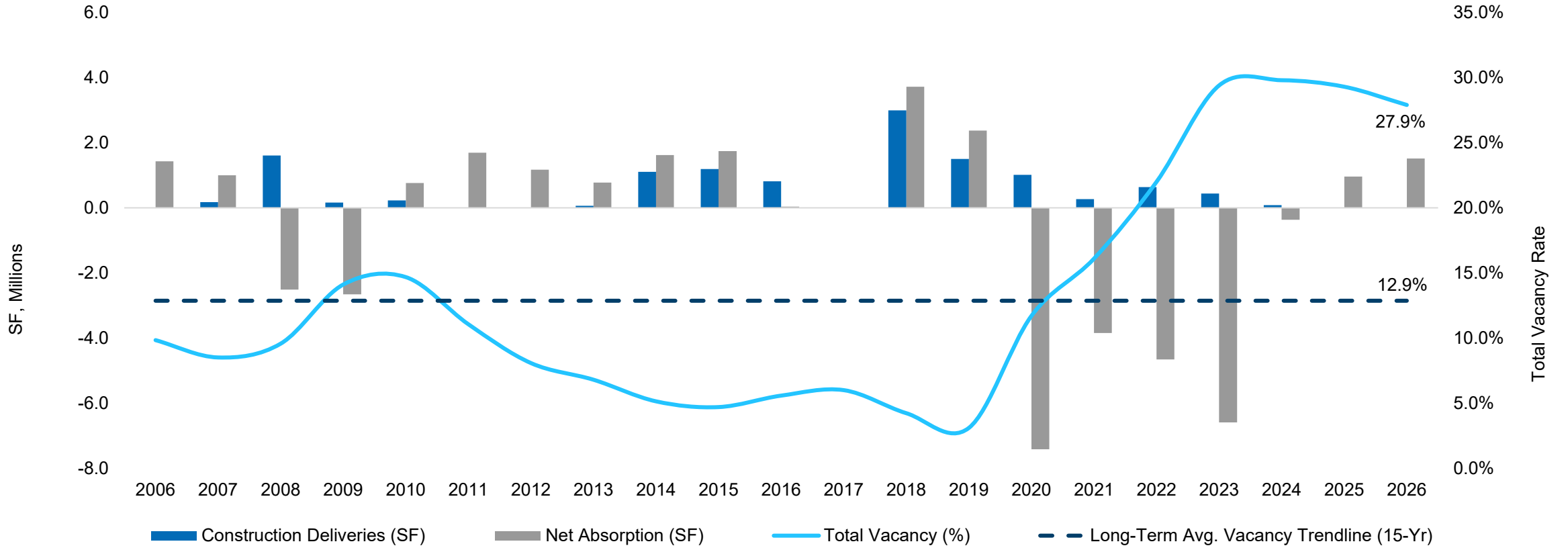
Leasing Market Fundamentals

1Q26

Noticeable Decrease in Vacancy

Historic leasing pace in the first quarter 2026 led to quarterly absorption of 1.5 million square feet, exceeding absorption for all of 2025. Class A absorption reached just under 1.0 million square feet, and there was nearly 500,000 square feet of Class B absorption. AI/Technology tenant demand has shifted toward high amenity, well-located, collaborative office settings. Overall vacancy dropped 190 basis points quarter-over-quarter and 390 basis points year-over-year.

Historical Construction Deliveries, Net Absorption, and Vacancy

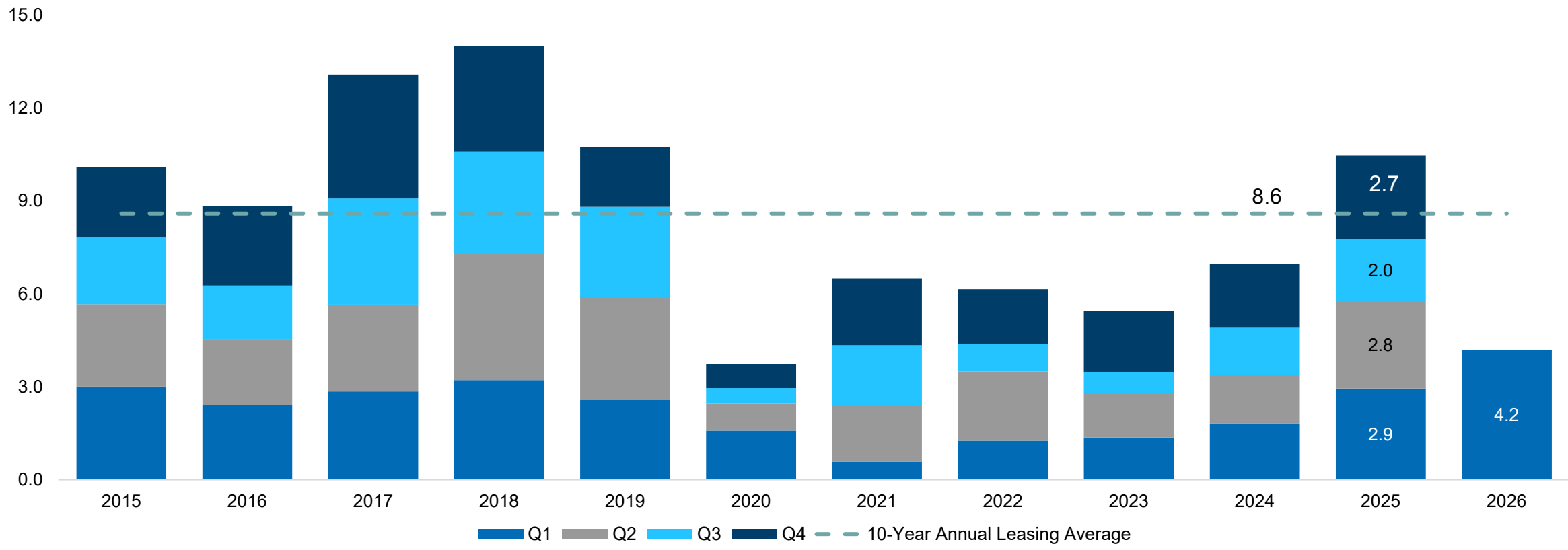


Source: Newmark Research, CoStar

Historic Leasing Activity

First-quarter leasing surged to a historic 4.2 MSF, marking the second-strongest quarterly performance in the past 30 years. Activity was driven by a wave of major tenant commitments, including Anthropic, which signed new leases totaling 586K square feet across two buildings, and Atlassian, which expanded its footprint to 145K square feet. In the quarter's largest sublease transaction, OpenAI secured 282K square feet from Dropbox, underscoring continued momentum among leading technology and AI firms.

Total Leasing Activity (MSF)

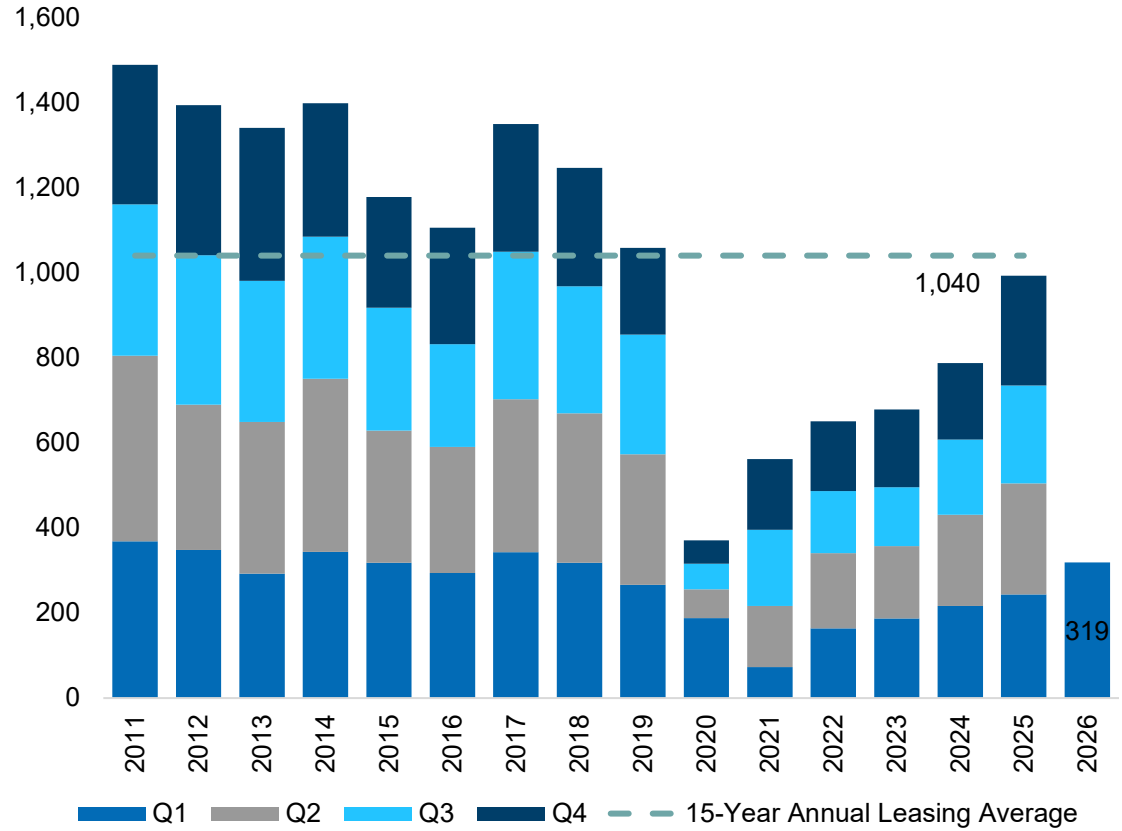


Source: Newmark Research, CoStar

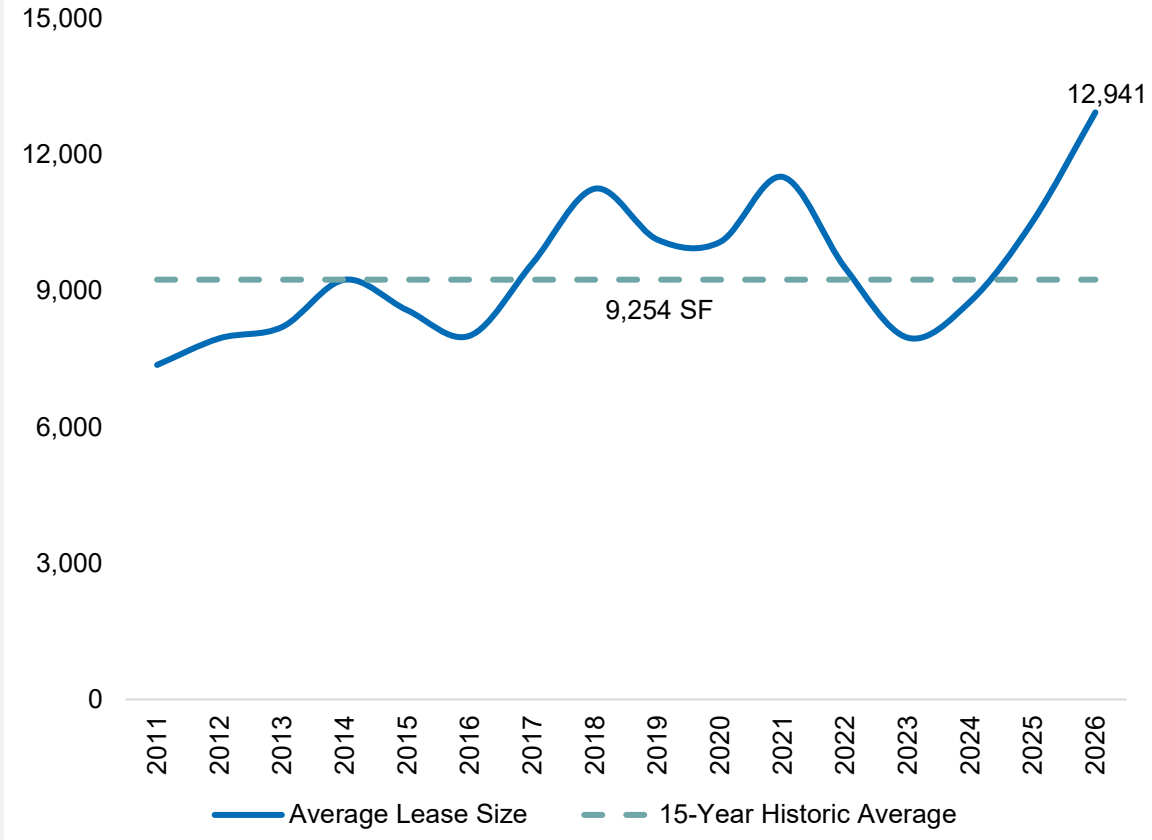
Leases Continue to Grow in Frequency and Size

Overall leasing in the first quarter was impacted both by the larger number of leases signed as well as the average lease size. The number of leases signed reached a level not seen since 2018, while the average lease size was the highest in five years. The average lease size in the first quarter was 39.8% higher than the average lease size over the past 15 years, and if leasing volume continues, the annualized number of leases signed would reach levels not seen since 2017.

Number of Leases Signed



Average Lease Size (SF)

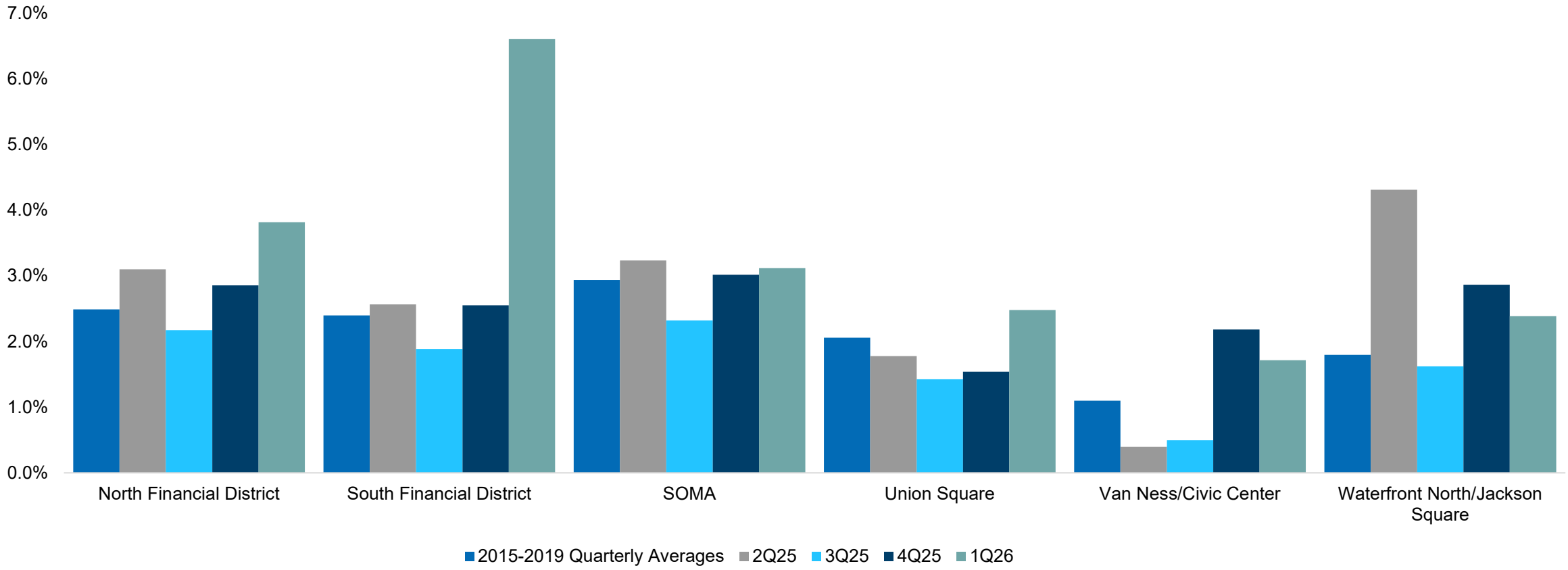


Source: Newmark Research, CoStar

CBD Drives Leasing

In Q1 2026, the CBD led the market, with the South Financial District leasing 1.98 million square feet, its highest quarterly total in 30 years, followed by the North Financial District leasing 1.17 million square feet, its highest level since Q2 2019. With tenant demand at 9.7 million square feet, leasing activity is expected to remain strong throughout 2026.

Leasing Activity as a Percentage of Inventory

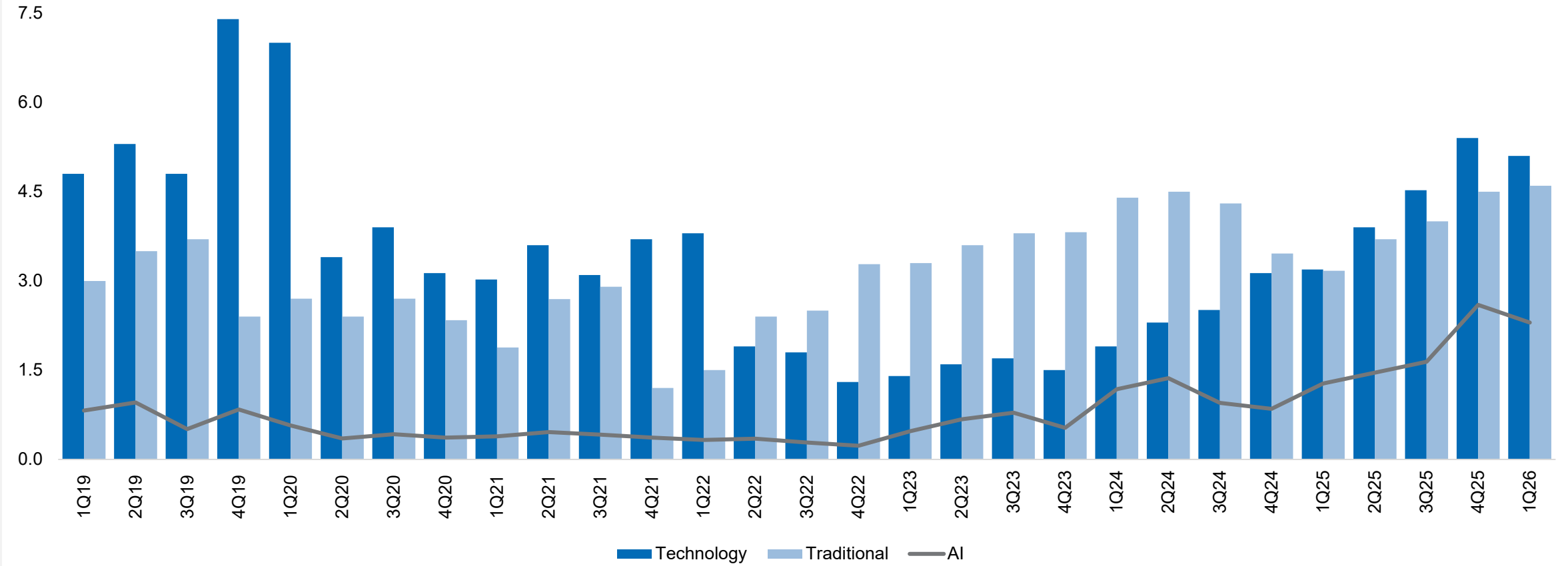


Source: Newmark Research, CoStar

Demand from Tech Companies Remains High

Historically-high demand in the fourth quarter resulted in historical leasing in the first quarter, but overall demand dropped only 2% since the end of 2025 and remains at pre-pandemic highs. Over the last few years, the balance of tech and traditional tenants has been shifting, as traditional tenants that had been squeezed out of the market in the years prior to the pandemic are seizing the opportunity to increase their footprints here. Currently, demand from non-tech tenants is at its highest level since 2013. Demand from technology companies remains robust, while demand from AI tenants was nearly 24% of total demand as of the end of the quarter.

Total Demand (MSF)

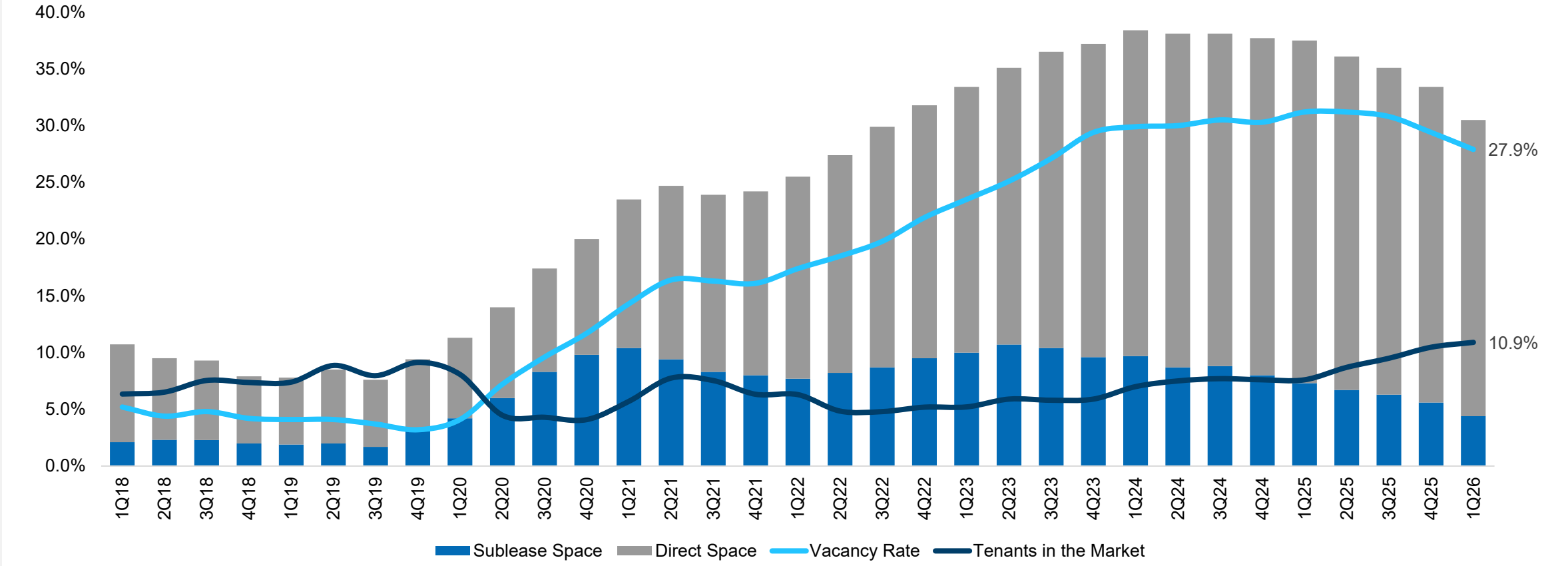


Source: Newmark Research

Vacancy Line Trended Downwards

After holding relatively steady for several quarters, vacancy has finally begun falling, while tenant demand continued to trend upwards. Available sublease space has declined to 4.4%, compared to 7.4% of the market last year and 10.8% of the market at its peak mid-2023. Overall availability still hovers over the 30%-mark, but it has dropped 690 basis points over the past year, and 820 basis-points from its peak level in 2024.

Available Space, Vacancy and Tenant Demand as Percent of Overall Market

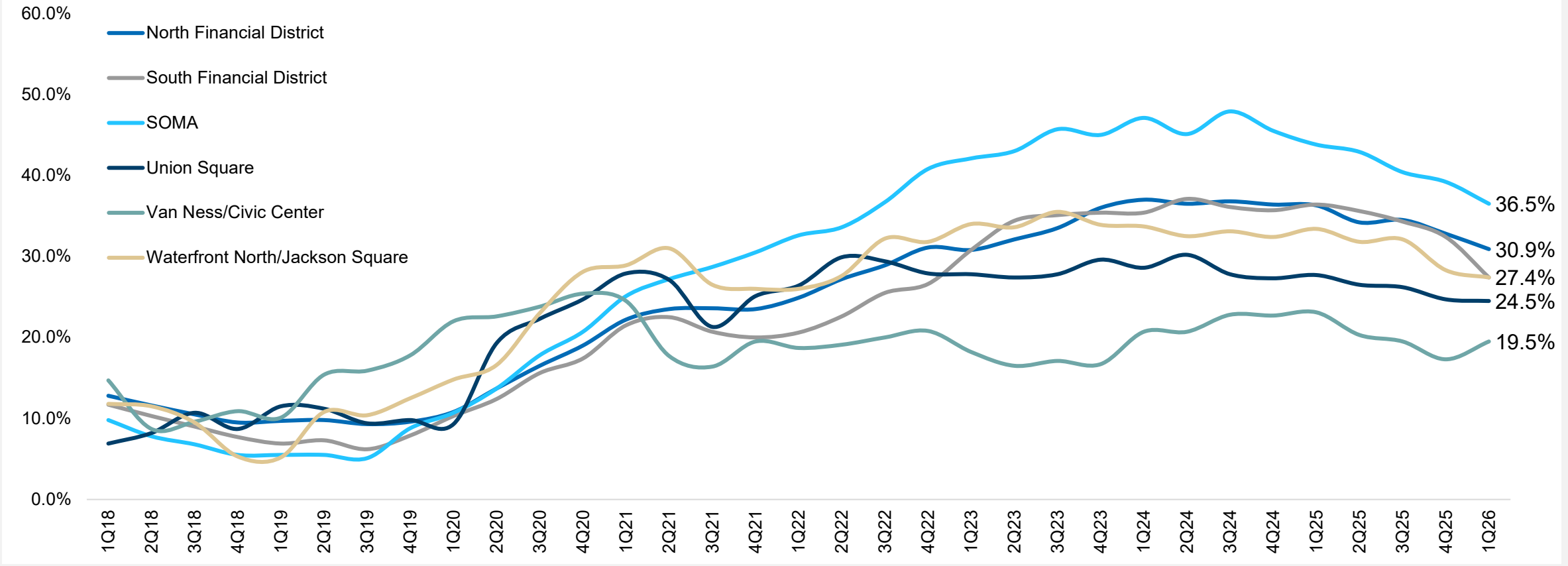


Source: Newmark Research, CoStar

Availability Dropped in All Submarkets

Availability rates fell in every submarket except Van Ness/Civic Center. In the first quarter of 2026, the South Financial District saw its highest level of leasing in 30 years, resulting in the largest drop in availability among all submarkets.

Availability Rate by Submarket

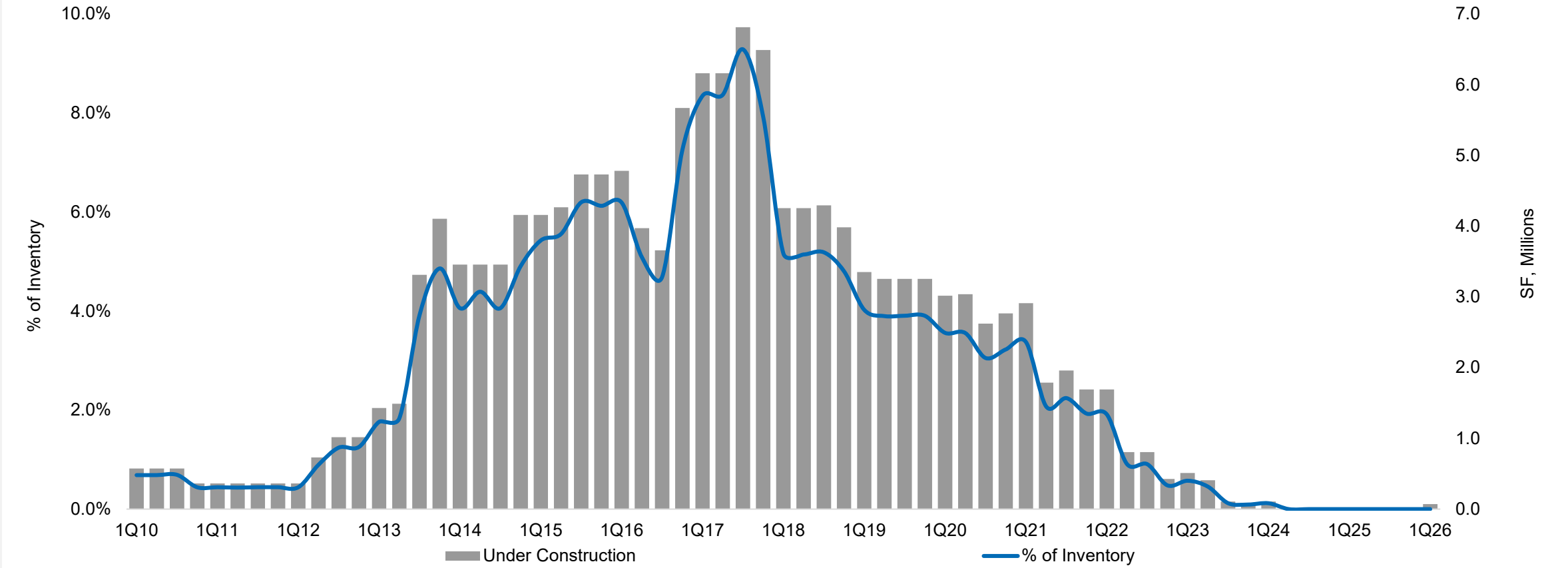


Source: Newmark Research, CoStar

Very Little Office Development Under Construction in San Francisco

Rising construction costs and an uncertain economic outlook had halted new office construction for several years, but pre-leasing at Pier 70 triggered construction activity in the first quarter. Excavation on the Potrero Power Station Block 2 is underway, with completion expected to be after 2030.

Office Under Construction and % of Inventory

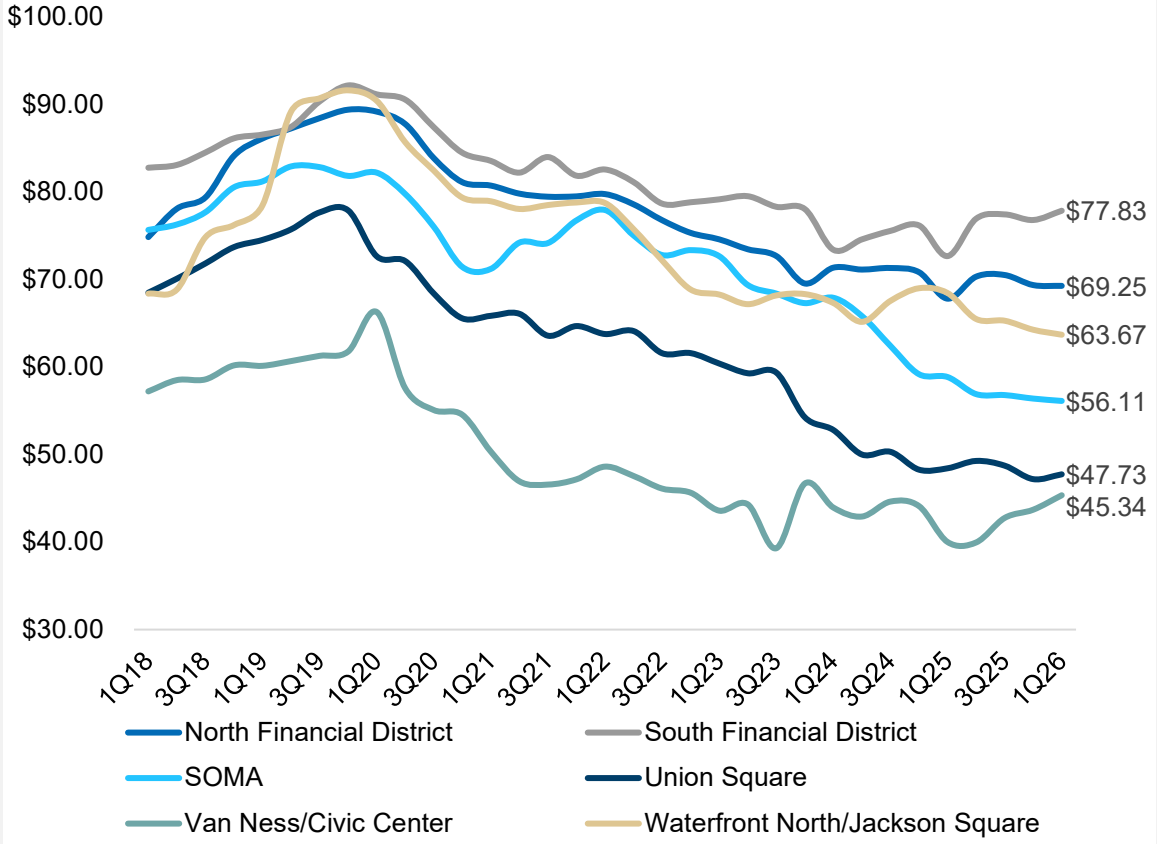


Source: Newmark Research, CoStar, City and County of San Francisco

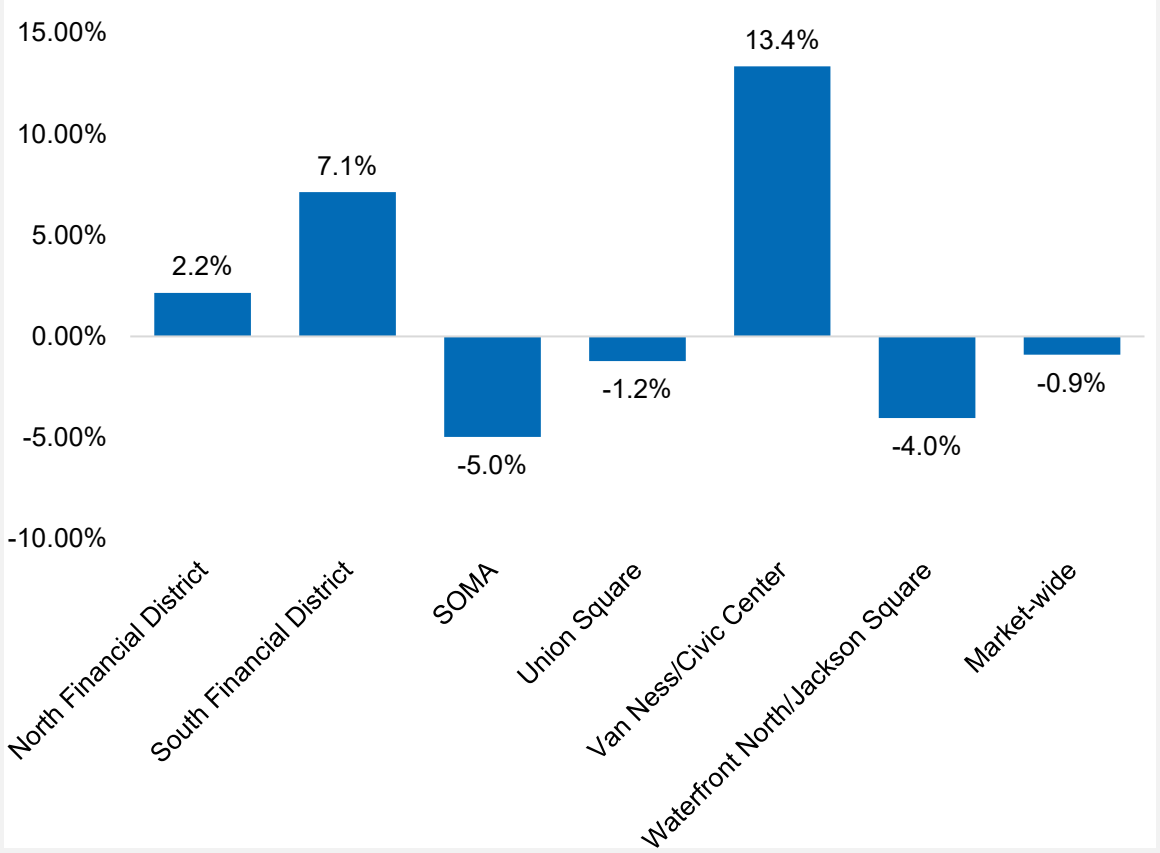
Asking Rents Stabilize

In Q1 2026, market-wide asking rents increased by 0.3% from the fourth quarter of 2025, reflecting strengthening tenant demand and increased competition for high-quality space. As market conditions tighten, landlords have gained greater pricing power, enabling them to achieve higher effective rents in lease negotiations.

Asking Rent by Submarket



Year-over-year Percent Change in Asking Rents

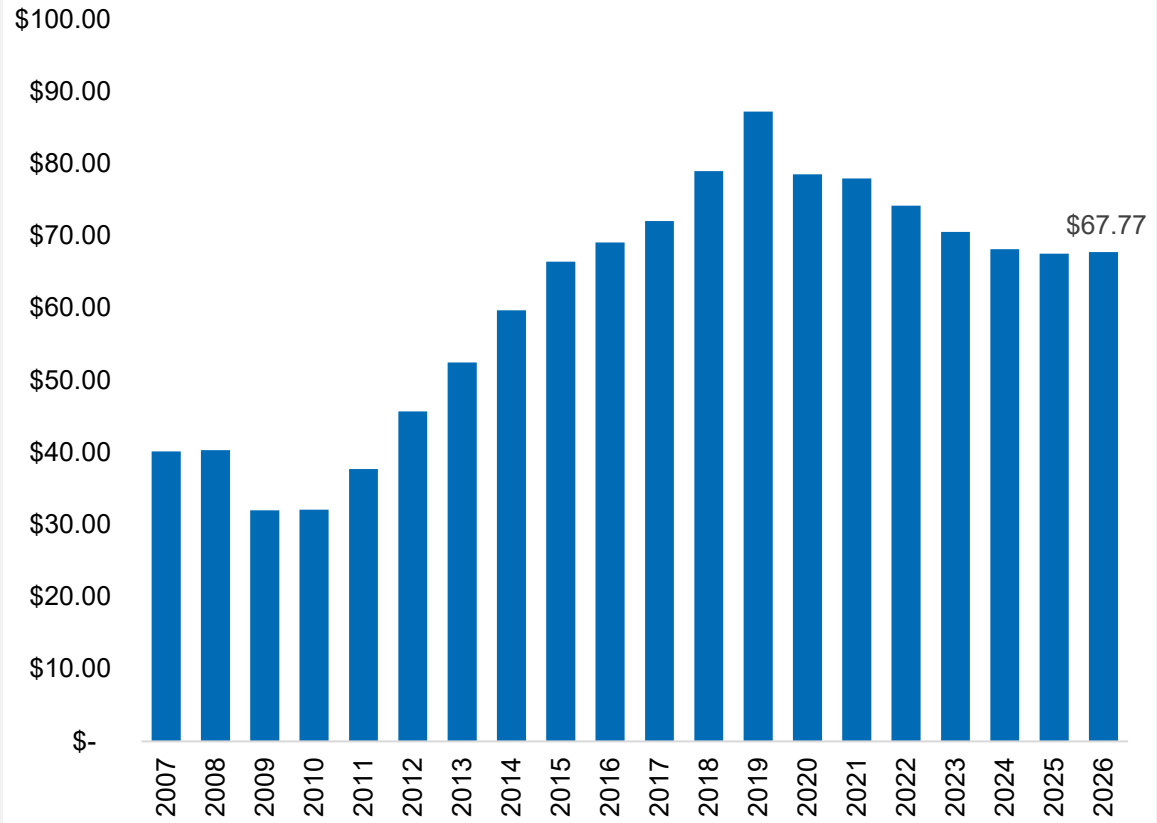


Source: Newmark Research, CoStar

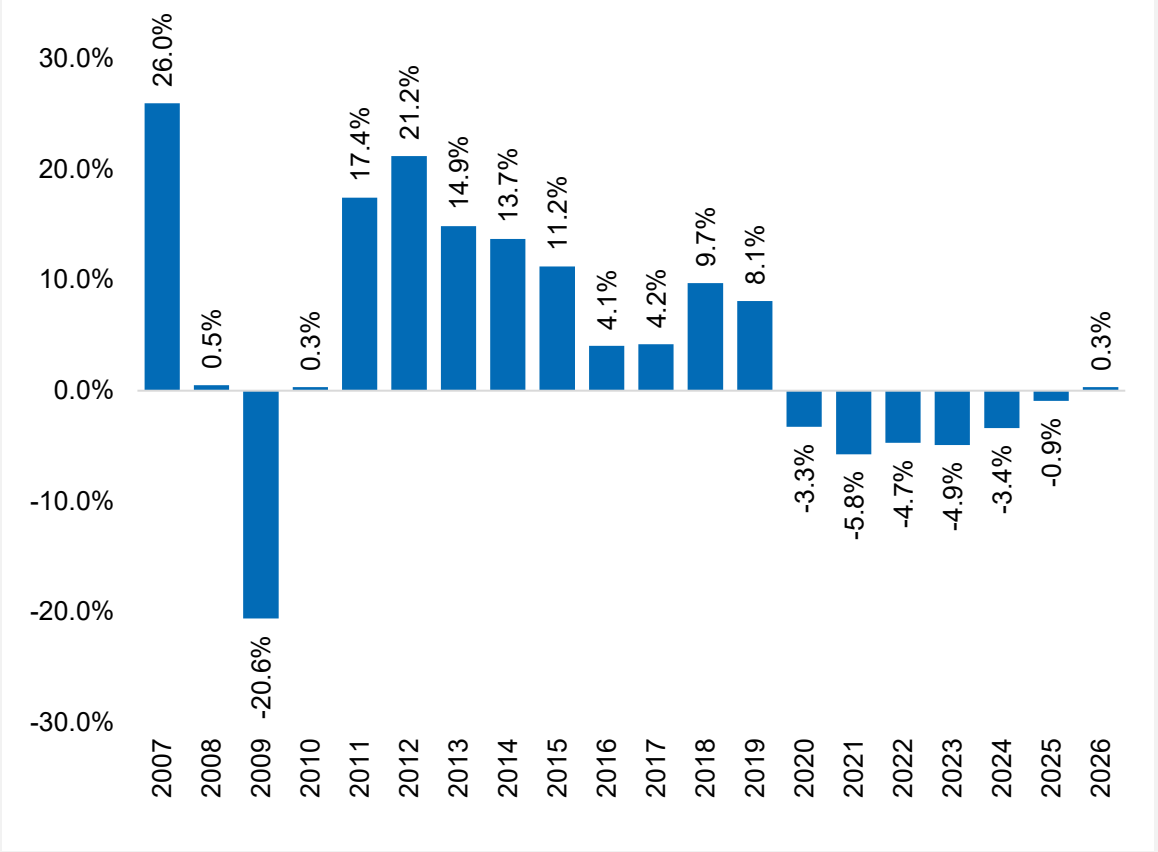
Decreases in Overall Market Rents Slowed

After falling about 22% during the first few years of the pandemic, direct asking rents have tapered off and have hovered around $68 per square foot for the past six quarters. Class A rates have been hovering around $75 per square foot for the last six quarters, falling about 19% from their peak at the end of 2019.

Office Average Asking Rent, $/SF, FS



Year-Over-Year Asking Rent Growth Rate

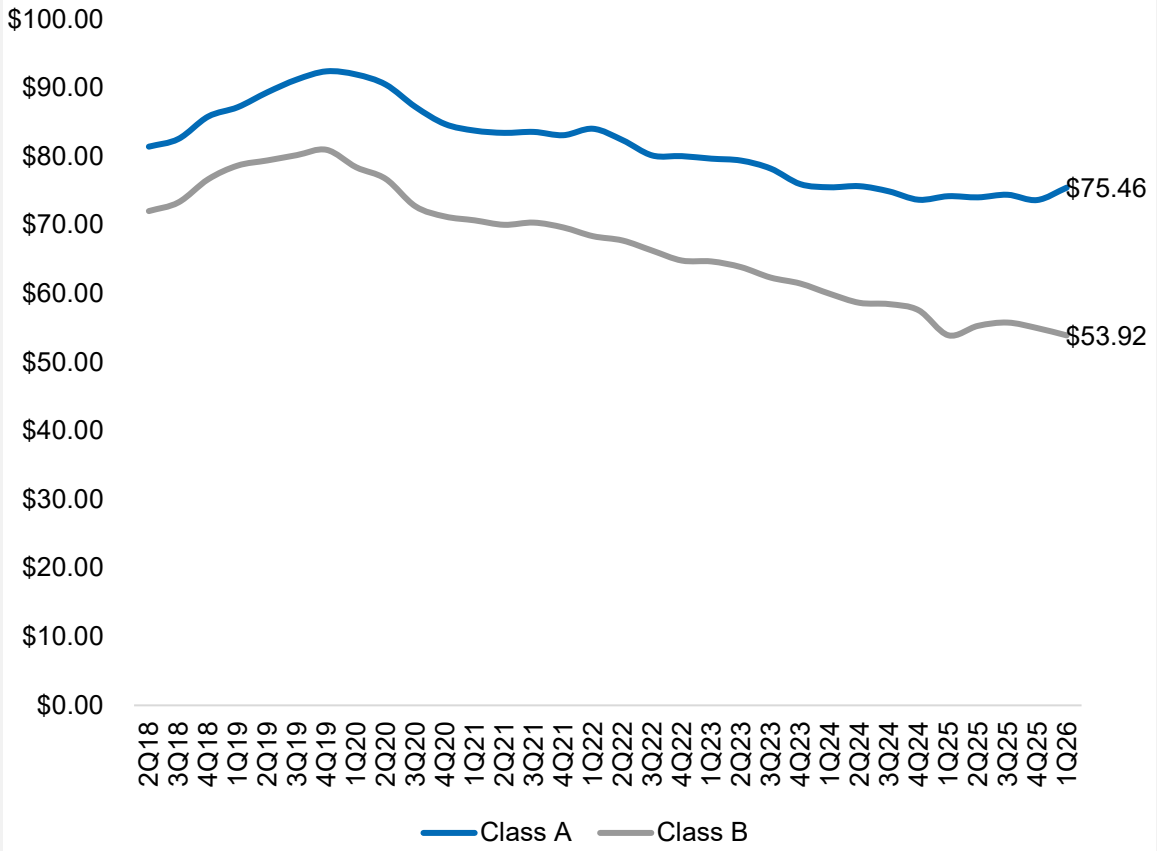


Source: Newmark Research

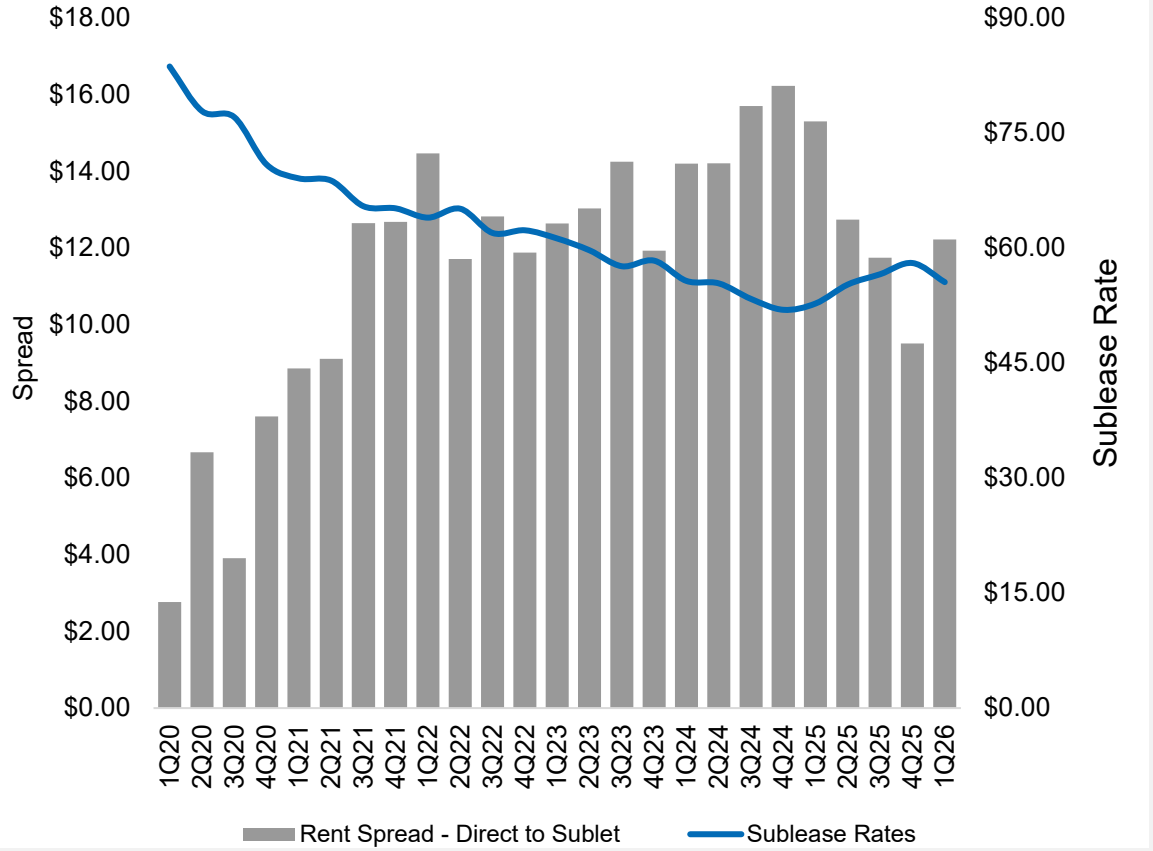
Sublease Asking Rents Continued to Stabilize

As sublease availability has slowly fallen over the past several quarters, sublease rents have trended upwards, although that trend paused in the first quarter as sublease rates ticked down modestly. Tenants are still looking to find bargains in a tighter market, and as more sublease space is leased, we can expect the rates to fluctuate – rising as sublandlords push higher rates and falling as the best options in that market are leased. Direct Class A asking rates declined by 18.3% and Class B rates declined by 33.4% since the height of the market, although Class A rents appear to be leveling.

Class A and B Asking Rents



Sublease Asking Rates

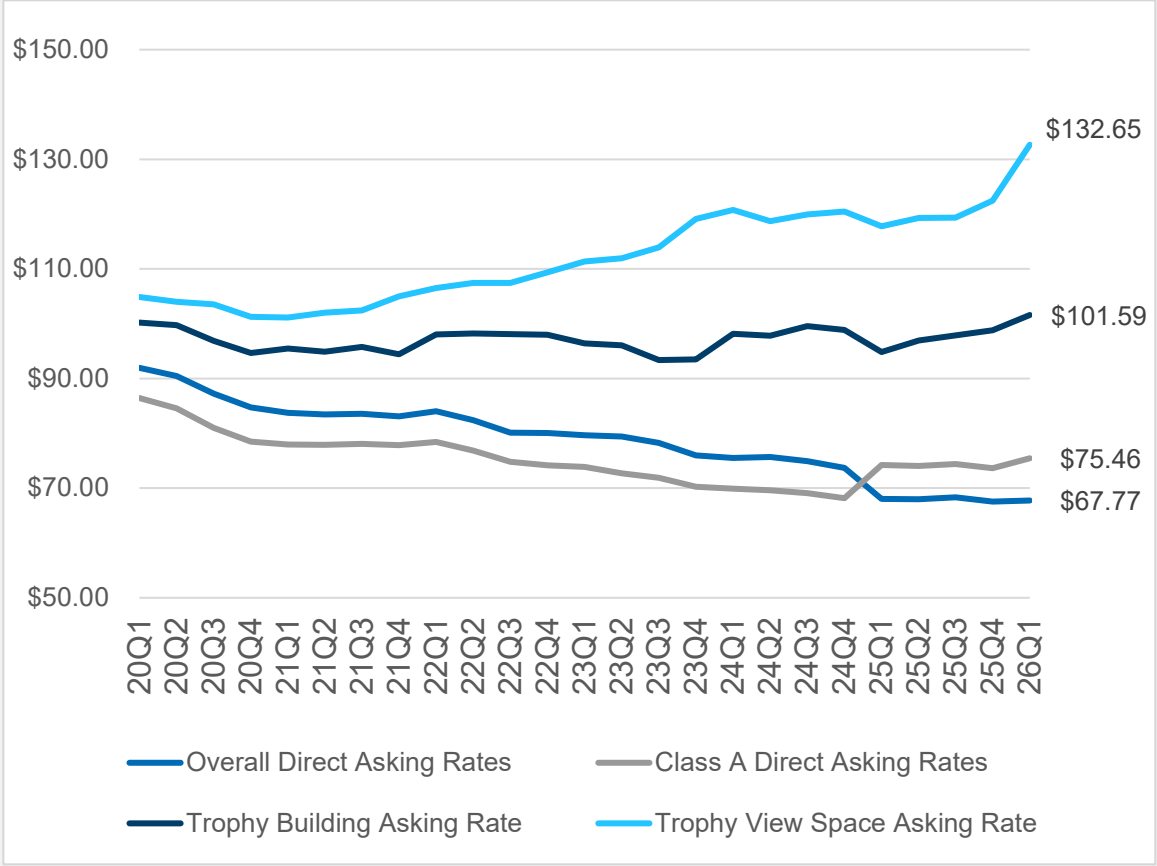


Source: Newmark Research, CoStar

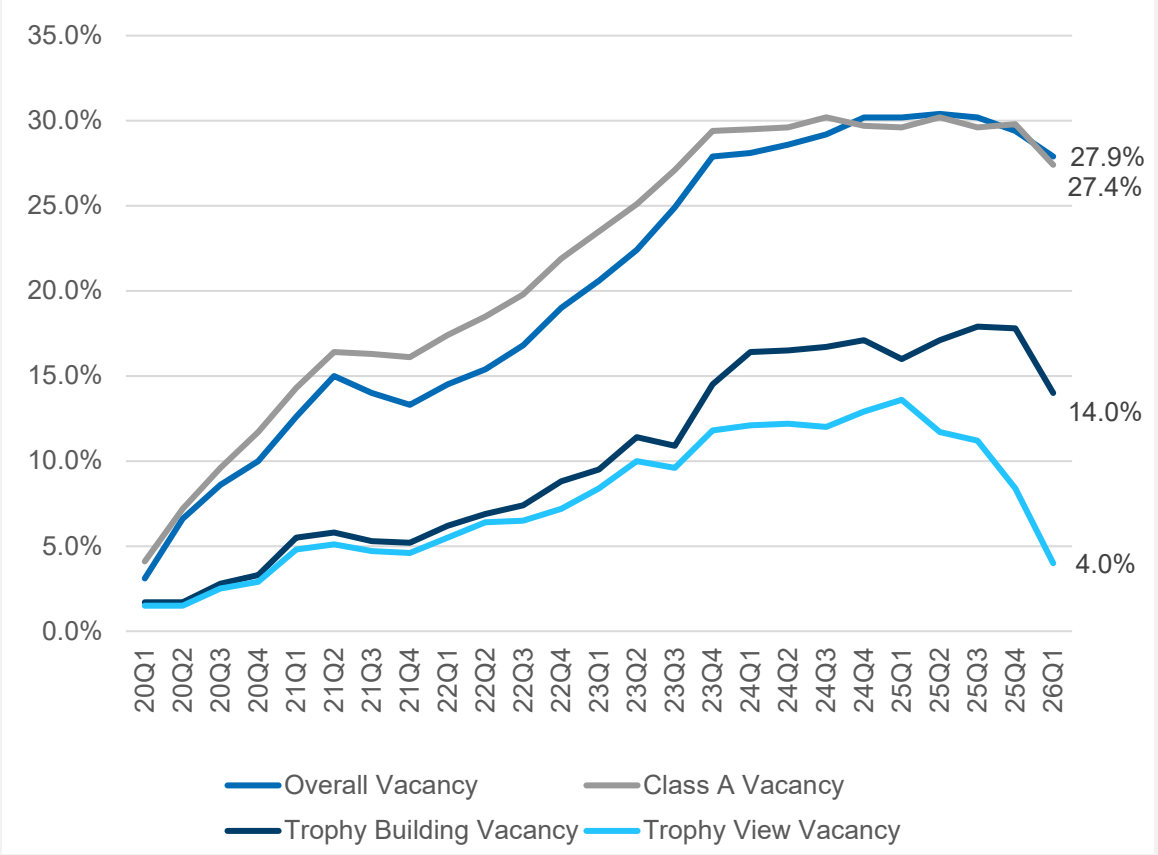
Trophy View Space Continues to Outpace Market

Newmark has identified view-facing floors within its Trophy building dataset to illustrate the supply constraints defining that segment of the market. Only 6.7% of the total office inventory is view space in trophy buildings, and only 4.0% of that subset is currently vacant. As a result, landlords in these buildings are asking for rates ranging from $120 per square foot to $265 per square foot. Tenants looking for a block of trophy view space 20,000 square are currently limited to just three buildings: 1 Maritime Plaza, 181 Fremont and Salesforce Tower.

Trophy View Asking Rate Comparison



Trophy View Vacancy Rate Comparison



Source: Newmark Research, CoStar

Large Block Leasing in Q1

There were eight office leases over 100K square feet in the first quarter of 2026, totaling 1.6 million square feet. This is the largest quarter of large block leasing in San Francisco since the pandemic.

Notable 1Q26 Lease Transactions

Tenant	Address	Submarket	Type	Square Feet
Anthropic	**300 Howard Street 342 Howard Street**	**Financial District South**	**Direct**	**484,000**
Anthropic signed a 13-year lease for the entirety of 300 Howard, as well as the historic 342 Howard. It is expected that Anthropic's footprint will keep expanding.				
OpenAI	**1800 Owens Street**	**SOMA – Mission Bay**	**Sublease**	**282,000**
OpenAI expanded and took the former Dropbox space. Open AI now leases more than 1 million square feet of office space in the city.				
Together AI	**2 Henry Adams**	**SOMA – Showplace/Potrero**	**Direct**	**148,826**
Together AI leased the top two floors at 2 Henry Adams, expanding from its footprint of 30,000 square feet.				
LinkedIn	**222 2nd Street**	**Financial District South**	**Renewal**	**148,664**
LinkedIn renewed the 9th-15th floors, which were set to expire.				
Atlassian	**350 Bush Street**	**Financial District North**	**Renewal**	**145,215**
Atlassian renewed its 145K square foot lease on floors 10-16.				
Crusoe	**225 Bush Street**	**Financial District North**	**Direct**	**130,234**
Crusoe expanded its footprint by 80K square feet.				
Charles Schwab	**425 Market Street**	**Financial District South**	**Direct**	**115,042**
Charles Schwab downsized and relocated from its long-time location at 221 Main Street.				
Anthropic	**400 Howard Street**	**Financial District South**	**Direct**	**101,969**
Anthropic leased another 102K square feet at Foundry Square, further bolstering their footprint at their future headquarters.				

Source: Newmark Research

Large Block Leasing continued

Notable 1Q26 Lease Transactions				
Tenant	**Address**	**Submarket**	**Type**	**Square Feet**
Carta	**333 Bush Street**	**Financial District North**	**Extension**	**83,245**
Extended on floors 19-20, and 22-24.				
Perplexity AI	**181 Fremont**	**Financial District South**	**Sublease**	**80,561**
Perplexity AI subleased floors 9-12 from Meta at 181 Fremont.				
General Catalyst	**Pier 70**	**SOMA – East**	**Direct**	**70,000**
General Catalyst leased the entire third floor of Building 12 at Pier 70.				
Decagon AI	**680 Folsom Street**	**Financial District South**	**Direct**	**69,358**
Decagon AI leased the 6th and 7th floors.				

Source: Newmark Research

03

Appendix



Submarket Overview

Submarket Statistics – All Classes

	Total Inventory (SF)	Total Vacancy Rate	Total Available (SF)	Sublease Available (SF)	Total Availability Rate	Qtr Net Absorption (SF)	YTD Net Absorption (SF)	Total FS Asking Rent (Price/SF)
San Francisco	89,280,862	27.9%	27,268,869	3,946,011	30.5%	1,513,735	1,513,735	$67.77
Financial District North	28,317,039	27.8%	8,742,659	478,133	30.9%	271,622	271,622	$69.25
Financial District South	27,328,891	26.3%	7,493,139	728,072	27.4%	880,508	880,508	$77.83
SOMA	22,602,650	33.0%	8,257,414	2,535,070	36.5%	382,707	382,707	$56.11
Union Square	3,732,240	21.5%	915,410	92,606	24.5%	18,748	18,748	$47.73
Van Ness/Civic Center	1,756,676	15.5%	342,553	5,421	19.5%	-31,313	-31,313	$45.34
Waterfront North/Jackson Square	5,543,366	23.8%	1,517,694	106,709	27.4%	-8,537	-8,537	$63.67

Source: Newmark Research

Submarket Overview

Submarket Statistics – Class A

	Total Inventory (SF)	Total Vacancy Rate	Total Available (SF)	Sublease Available (SF)	Total Availability Rate	Qtr Net Absorption (SF)	YTD Net Absorption (SF)	Total FS Asking Rent (Price/SF)
San Francisco	59,463,638	27.4%	17,653,472	2,315,871	29.7%	978,948	978,948	$75.46
Financial District North	20,836,090	25.1%	6,090,408	368,441	29.2%	184,138	184,138	$75.24
Financial District South	24,316,700	27.0%	6,731,460	713,322	27.7%	730,522	730,522	$80.81
SOMA	12,233,353	33.3%	4,364,372	1,213,591	35.7%	44,879	44,879	$61.78
Union Square	114,546	0%	36,898	0	32.2%	16,163	16,163	$55.00
Van Ness/Civic Center	134,500	26.2%	39,052	0	29.0%	0	0	$70.00
Waterfront North/Jackson Square	1,828,449	20.4%	391,282	20,517	21.4%	3,246	3,246	$77.22

Source: Newmark Research

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