

Office Q1 2022

	YoY Chg	12-Mo. Forecast
21.7% Vacancy Rate	▲	▼
-1.5M Net Absorption, SF	▼	▲
\$76.66 Asking Rent, PSF	▲	—

(Overall, All Property Classes)

ECONOMIC INDICATORS Q1 2022

	YoY Chg	12-Mo. Forecast
1.15M San Francisco Metro Employment	▲	▲
3.7% San Francisco Metro Unemployment Rate	▼	▼
3.6% U.S. Unemployment Rate	▼	▼

Source: BLS, Moody's Analytics
2022Q1 data are based on the latest available data

ECONOMY: Office Jobs Surpass Pre-Pandemic High

For San Francisco in the first quarter, there was a slow but steady pace of workers returning to the office at least a portion of the week. But hybrid and remote working practices are both significant factors of the equation locally and that will likely remain the case at least in the near-term. There was \$11.2 billion in venture capital funding to San Francisco-based companies in the first quarter of 2022, down from the record levels recorded in 2021, yet still the fifth highest quarterly figure on record. Employment across all sectors has continued to climb in the San Francisco metro division with 92,200 new jobs year-over-year (YOY) for a growth rate of 8.7%. Office job growth has been stellar with a new record of 500,300 positions achieved in the first quarter, up 6.5% YOY. Meanwhile, the unemployment rate has tumbled 210 basis points (bps) YOY with the most recent figure at 3.7%.

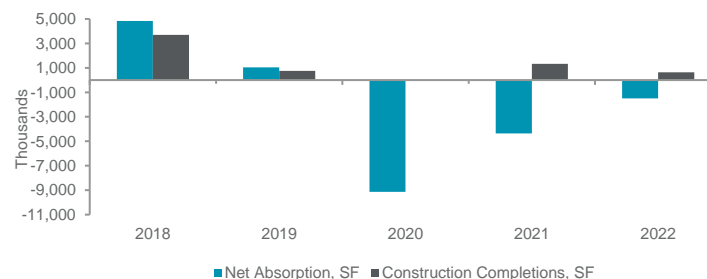
SUPPLY: Sublease Vacancy Shrinks Again

The Citywide overall vacancy rate at the end of the first quarter of 2022 was 21.7%, up 180 bps from the 19.9% in the fourth quarter of 2021 and up 300 bps from the 18.7% one year ago. San Francisco sublease vacancy fell for the fourth straight quarter, closing at 5.3 million square feet (msf) down 3.6% from 5.5 msf in the fourth quarter of 2021 and 33.8% below its record high of 8.0 msf one year ago. This shift is thanks to big block sublease leasing activity, some re-occupancy and space moving from sublease to direct. Direct vacancy climbed to 13.4 msf in the first quarter, up from 11.5 msf in the fourth quarter. The largest new direct block on the market is at the newly completed 415 Natoma Street (5M); with one lease of 20,300 square feet (sf) signed just prior to completion, there remains approximately 620,000 square feet of available office space.

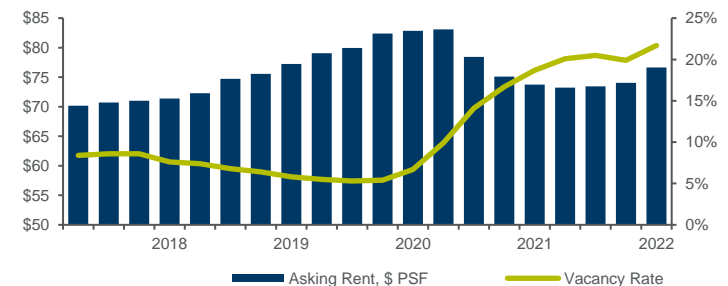
PRICING: Elevated Pricing in Top Tier Buildings

The overall average asking rent for San Francisco closed out the first quarter at \$76.66 per square foot (psf) on an annual gross basis, up for the third straight quarter. The Class A CBD overall asking rent closed the first quarter at \$81.39 psf, up 2.9% from the fourth quarter figure of \$79.06 psf and up 4.0 % from \$78.24 psf one year ago. The Class A CBD direct average asking rent wrapped up the first quarter at \$85.89 psf, up from \$85.30 psf last quarter and is the highest since the \$87.58 psf in the third quarter of 2020. The increase in asking rents is due in large part to the rise in direct vacancy (typically priced higher than sublease) accounting for a larger share of the total in the first quarter compared to previous quarters during the pandemic; rents in top tier buildings have held strong and, in some cases, climbed higher over the past few quarters as the flight to quality continues.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



SAN FRANCISCO

Office Q1 2022



CONSTRUCTION: One Major Building Delivered

There was one new construction delivery in the first quarter - the previously mentioned Class A office building at 415 Natoma Street (part of the 5M mixed-use development) with one lease signed (thus far) to Thumbtack. There remains a total of 544,000 sf under construction or under renovation with deliveries through 2023. Proposed office projects total just over 17.5 msf, with the majority of that either in Central SoMa or along the Third Street Corridor on San Francisco Bay.

DEMAND: Class A Product in South Financial Most Popular

New leasing activity Citywide for the first quarter was on par with the fourth quarter at 1.2 msf and 1.1 msf, respectively. Once again, leasing was skewed heavily towards Class A product at 880,000 sf or 73.3%. The CBD market was in control regarding overall (all classes) of new leasing as well, with 900,000 sf or 75.0% of total activity. Two large deals pushed South Financial into the top submarket spot with 589,000 sf leased (Sephora taking 287,000 sf at 350 Mission Street and CBS Interactive taking 71,000 sf at 680 Folsom Street) with North Financial up next at 173,000 sf. After improving significantly in the last two quarters of 2021 (though still negative) Citywide overall net absorption fell further into the red at negative 1.5 msf for the first quarter. The CBD and SoMa were the centers of that negative absorption figure.

At the end of the first quarter there were 193 active requirements totaling 4.9 msf; 3.2 msf or 65.3% is from tenants connected to the technology industry. Tenant activity has declined by 9.3% from 5.4 msf at the fourth quarter and remains 33.8% below the 7.4 msf recorded just prior to the pandemic in early March 2020. One metric that has increased since just before the pandemic: tenants looking for less than 10,000 sf has climbed sharply, from 43 in early March 2020 to 69 at the end of the first quarter 2022.

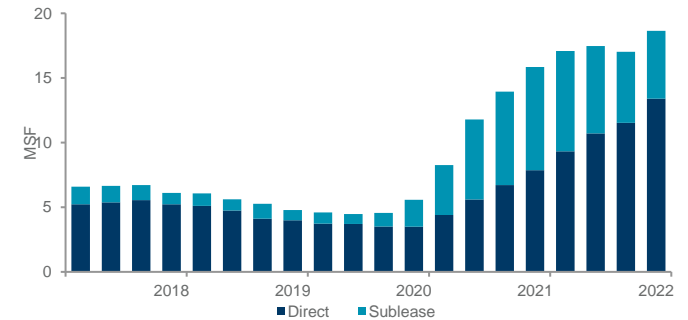
SALES: More Active Market Ahead

There were no major office sales recorded in San Francisco in the first quarter of 2022. We expect transaction activity to rise during the year as some owners capitulate on pricing and rising interest rates make it more difficult to refinance, especially if there is significant upcoming vacancy or near-term lease rollover. Additionally, there are several owner-users (like Wells Fargo) expected to sell as they right-size their space needs.

OUTLOOK

- Job growth is forecast to rocket ahead in 2022; additional office positions, already ahead of the pre-pandemic figure, should translate into further demand for office space even with the hybrid model now in place.
- Though the overall vacancy rate will remain above the quarterly average of 12.3% since 2000, the trophy segment of the market will likely see a sharp decline with the flight to quality continuing.
- As with the vacancy rate, asking rents will be bifurcated with top tier space asking and achieving rents at or near record levels.

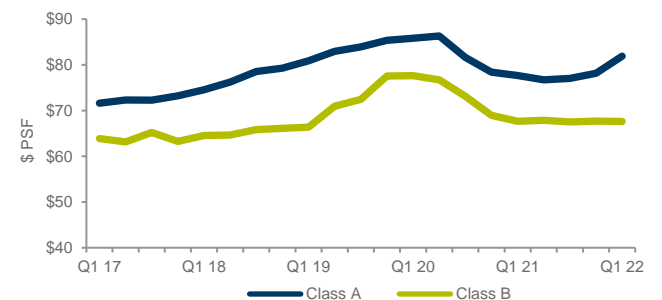
Direct vs. Sublease Vacant Space Comparison



New Leasing



Overall Asking Rent Comparison



MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION	YTD OVERALL ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
North Financial District	26,473,461	943,887	4,994,591	22.4%	-608,625	-608,625	220,111	0	\$78.75	\$83.43
South Financial District	28,222,466	1,720,314	3,296,590	17.8%	-630,110	-630,110	680,286	0	\$77.12	\$79.11
CBD TOTALS	54,695,927	2,664,201	8,291,181	20.0%	-1,238,735	-1,238,735	900,397	0	\$78.09	\$81.39
Jackson Square	2,044,625	39,238	500,197	26.4%	-23,084	-23,084	39,090	0	\$75.55	\$88.31
Mid-Market	4,953,015	351,768	849,254	24.3%	11,775	11,775	11,442	94,000	\$63.47	\$71.67
Mission Bay	2,812,915	484,068	0	17.2%	-26,302	-26,302	0	300,000	\$86.17	\$86.17
North Waterfront	3,325,672	102,576	630,818	22.1%	-111,025	-111,025	15,774	0	\$74.89	\$72.80
Showplace Square/Potrero Hill	4,181,426	716,375	277,639	23.8%	-44,257	-44,257	25,150	0	\$74.26	\$76.56
SoMa	8,902,002	771,092	2,160,840	32.9%	11,493	11,493	66,087	0	\$81.10	\$91.92
The Presidio	1,030,627	4,445	21,580	2.5%	23,999	23,999	61,523	0	\$75.23	\$75.23
Third Street Corridor	336,482	0	0	0.0%	0	0	0	0	N/A	N/A
Union Square	3,127,493	105,619	570,309	21.6%	-80,270	-80,270	38,149	150,000	\$61.44	\$64.64
Van Ness Corridor	728,356	16,727	96,381	15.5%	-15,434	-15,434	0	0	\$54.48	\$48.06
NON-CBD TOTALS	31,442,613	2,591,908	5,107,018	24.5%	-253,105	-253,105	257,215	544,000	\$74.77	\$82.77
SAN FRANCISCO TOTALS	86,138,540	5,256,109	13,398,199	21.7%	-1,491,840	-1,491,840	1,157,612	544,000**	\$76.66	\$81.90

*Rental rates reflect full service asking

**Data for total under construction/under renovation was adjusted after the quarter close and will not match the national report

KEY LEASE TRANSACTIONS Q1 2022

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
350 Mission Street	South Financial	Sephora	286,626	Sublease
680 Folsom Street	South Financial	CBS Interactive	70,770	Sublease
One Letterman Drive, Bldg B	The Presidio	Sixth Street Partners	59,008	New Lease
303 2 nd Street	South Financial	Opendoor	44,961	Sublease
631 Howard Street	South Financial	Finix	42,349	New Lease
525 Market Street	South Financial	Disney Streaming Services	36,594	Renewal/Expansion
Pier 26	SoMa	Sofar Ocean Technologies	28,341	Sublease
Four Embarcadero Center	North Financial	Hogan Lovells	22,501	New Lease
560-564 Pacific Avenue	Jackson Square	Godfrey Dadich Partners	22,000	New Lease
415 Natoma Street (5M)	SoMA	Thumbtack	20,353	New Lease

*Renewals not included in leasing statistics.

KEY CONSTRUCTION COMPLETIONS Q1 2022

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER/DEVELOPER
415 Natoma Street (5M)	SoMa	N/A	637,500	Brookfield Properties

SAN FRANCISCO

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OFFICE SUBMARKETS



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