

	YoY Chg	12-Mo. Forecast
<b>21.7%</b> Vacancy Rate	▲	▼
<b>-654K</b> Net Absorption, SF	▲	▲
<b>\$75.65</b> Asking Rent, PSF	▲	▼

*(Overall, All Property Classes)*

**ECONOMIC INDICATORS Q2 2022**

	YoY Chg	12-Mo. Forecast
<b>1.16M</b> San Francisco Metro Employment	▲	▲
<b>2.7%</b> San Francisco Metro Unemployment Rate	▼	▼
<b>3.6%</b> U.S. Unemployment Rate	▼	▼

Source: BLS, Moody's Analytics  
2022Q2 data are based on the latest available data

**ECONOMY: Unemployment Rate Dips Under 3%**

For San Francisco in the second quarter, there was an increase in the pace of workers returning to the office at least a portion of the week. However, 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 \$9.6 billion in venture capital funding to San Francisco-based companies in the second quarter of 2022, tumbling 28.2% from the first quarter, yet still the sixth highest quarterly figure on record. Employment across all sectors has continued to climb in the San Francisco metro division with 85,000 new jobs year-over-year (YOY) for a growth rate of 7.9%. Office job growth has been stellar with a new record of 510,600 positions achieved in the second quarter, up 7.9% YOY. Meanwhile, the unemployment rate has dropped 270 basis points (bps) YOY with the most recent figure at 2.7%.

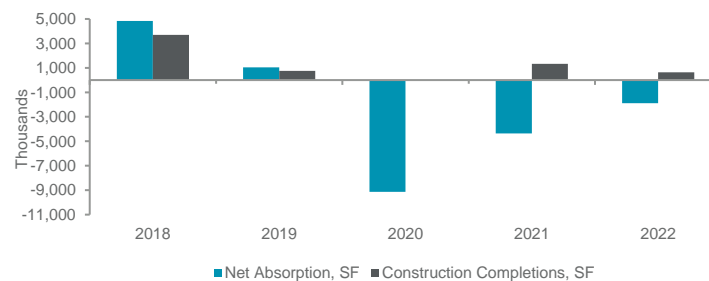
**SUPPLY: Direct Vacancy Climbed to a New High**

The Citywide overall vacancy rate at the end of the second quarter of 2022 was 21.7%, unchanged from the first quarter of 2022 though up 290 bps from the 18.8% one year ago. San Francisco sublease vacancy fell, closing at 5.0 million square feet (msf) down 4.8% from 5.3 msf in the first quarter of 2022 and 17.3% below 6.0 msf one year ago. This shift is thanks to big block sublease leasing activity, some re-occupancy and space moving from sublease to direct. The largest new sublease block on the market is at 153 Townsend Street offering 128,570 square feet (sf). Direct vacancy climbed to a new high at 13.7 msf in the second quarter, up from 13.4 msf in the first quarter. The largest new direct block on the market is the entire 215,000 sf at 270 Brannan Street, formerly leased to Splunk.

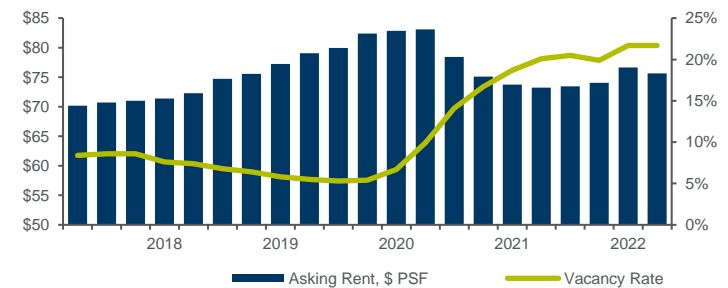
**PRICING: Flight to Quality Holds a Firm Grip on High Pricing**

The overall average asking rent for San Francisco closed out the second quarter at \$75.65 per square foot (psf) on an annual gross basis, down 1.3% from the first quarter. The Class A CBD overall asking rent closed the second quarter at \$80.55 psf, down 1.0% from the first quarter figure of \$81.39 psf and up 4.6 % from \$77.02 psf one year ago. The Class A CBD direct average asking rent wrapped up the second quarter at \$83.76 psf, down from \$85.89 psf last quarter and took a step back from the high of \$87.58 psf in the third quarter of 2020. The decrease in asking rents is largely attributed to new leasing of quality space in Non-CBD submarkets; while CBD 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 Q2 2022

## CONSTRUCTION: Jewel Box Building Breaks Ground in South Park

There was one new project that broke ground in the second quarter, located in South Park, a small neighborhood within SoMa known to attract venture capital tenants; 531 Bryant Street will be the first jewel box building totaling 51,409 sf over 5 floors including a rooftop garden. There remains a total of 617,000 sf under construction or under renovation with deliveries through 2023. Proposed office projects total just over 17.4 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 North Financial Most Popular

New leasing activity Citywide for the second quarter was on par with the first quarter at 1.3 msf and 1.5 msf, respectively. Once again, leasing was skewed heavily towards Class A product at 1.1 msf sf or 87.9%. The CBD market was in control regarding overall (all classes) new leasing as well, with 800,000 sf or 61.0% of total activity. One large deal helped push North Financial into the top submarket spot with 506,000 sf leased (US Bank's renewal and expansion for 100,000 sf at One California Street) with Showplace Square/Potrero Hill up next at 296,000 sf leased (Google Cloud subleasing 296,000 sf from Stripe at 510 Townsend Street). After improving significantly since last quarter (though still negative) Citywide overall net absorption remained in the red at negative 654,000 sf in the second quarter. The North Financial and SoMa submarkets were the centers of that negative absorption figure.

At the end of the second quarter there were 126 active requirements totaling 3.1 msf; 1.6 msf or 51.6% is from tenants connected to the technology industry. Tenant activity has declined by 36.7% from 4.9 msf at the first quarter and remains 58.1% below the 7.4 msf recorded just prior to the pandemic in early March 2020.

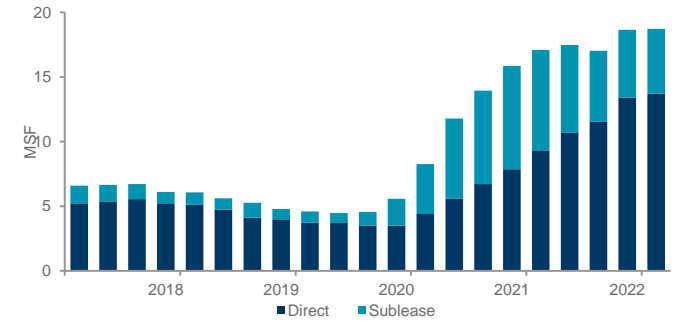
## SALES: Retail Giant Completes Largest Sale of the Year

There were two major office sales recorded in San Francisco in the second quarter of 2022 totaling \$427M. Retail giant, Gap sold their Old Navy headquarters at 550 Terry A. Francois Blvd to DivcoWest for \$356M for the purpose of consolidating into their waterfront office. There are discussions around converting the building to life science use as it is centrally located in San Francisco's life science hub. Also, in SoMa, 180 Townsend traded for \$71M or \$1,775 psf, changing hands from DivcoWest to Sobrato Development; the property is fully leased to Andreessen Horowitz.

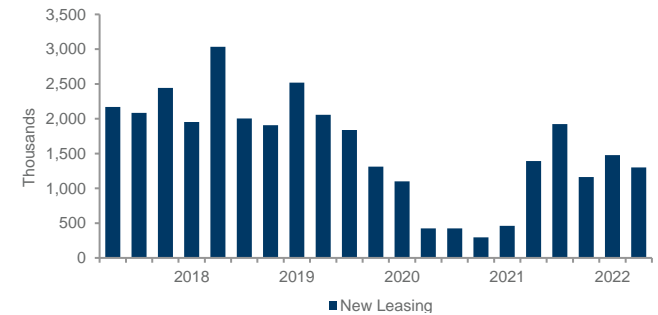
## OUTLOOK

- RTO vs WFH - a gradual rise in San Francisco workers returning to the office; but how much space tech and non tech alike will occupy remains to be seen.
- There have been several significant new transactions in San Francisco in 1H 2022 including "big tech" which has pushed leasing to climb well above the figure for 1H 2021.
- Top tier rents have held or in some cases risen over the past few quarters with a flight to quality underway; bifurcated market will mean tight availability in trophy buildings while commodity and class B space linger, with declining rents, on the market.

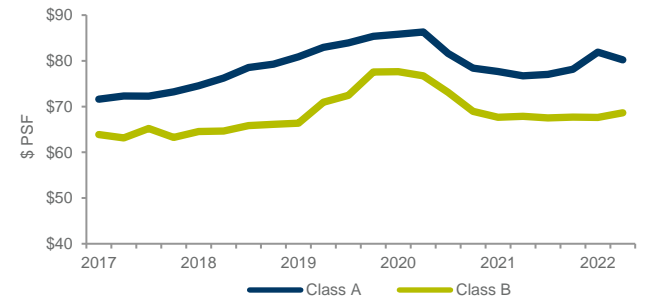
## Direct vs. Sublease Vacant Space Comparison



## 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	1,008,897	5,089,849	23.0%	-287,873	-869,425	791,389	0	\$77.42	\$81.27
South Financial District	28,222,466	1,234,384	3,345,244	16.2%	104,389	-326,169	1,162,095	0	\$78.34	\$79.68
<b>CBD TOTALS</b>	<b>54,695,927</b>	<b>2,243,281</b>	<b>8,435,093</b>	<b>19.5%</b>	<b>-183,484</b>	<b>-1,195,594</b>	<b>1,953,484</b>	<b>0</b>	<b>\$77.80</b>	<b>\$80.55</b>
Jackson Square	2,044,625	35,584	480,295	25.2%	14,019	-6,425	184,514	0	\$66.71	\$75.08
Mid-Market	4,953,015	340,768	881,013	24.7%	-66,759	-54,984	28,442	94,000	\$60.02	\$63.69
Mission Bay	2,812,915	453,201	0	16.1%	30,867	4,565	45,287	300,000	\$86.40	\$86.40
North Waterfront	3,325,672	102,576	622,379	21.8%	8,439	-102,586	26,948	0	\$73.47	\$69.51
Showplace Square/Potrero Hill	4,181,426	769,828	205,414	23.3%	-53,453	-25,485	321,150	0	\$67.19	\$67.12
SoMa	8,902,002	915,280	2,412,972	37.4%	-418,511	-407,018	117,274	51,409	\$79.70	\$88.38
The Presidio	1,030,627	4,445	19,065	2.3%	2,515	26,514	61,523	0	\$70.13	\$75.23
Third Street Corridor	336,482	0	0	0.0%	0	0	0	0	N/A	N/A
Union Square	3,127,493	141,436	560,479	22.4%	10,643	-125,390	37,289	0	\$59.97	\$61.73
Van Ness Corridor	728,356	0	93,342	12.8%	1,568	0	1,568	0	\$50.13	\$48.94
<b>NON-CBD TOTALS</b>	<b>31,442,613</b>	<b>2,763,118</b>	<b>5,274,959</b>	<b>25.6%</b>	<b>-470,672</b>	<b>-690,809</b>	<b>823,995</b>	<b>445,409</b>	<b>\$72.51</b>	<b>\$79.56</b>
<b>SAN FRANCISCO TOTALS</b>	<b>86,138,540</b>	<b>5,006,399</b>	<b>13,710,052</b>	<b>21.7%</b>	<b>-654,156</b>	<b>-1,886,403</b>	<b>2,777,479</b>	<b>445,409</b>	<b>\$75.65</b>	<b>\$80.21</b>

\*Rental rates reflect full service asking

## KEY LEASE TRANSACTIONS Q2 2022

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
333 Market Street	South Financial	Wells Fargo	629,838	Renewal/Consolidation
510 Townsend Street	Showplace Square	Google	296,000	Sublease
600 Battery Street	Jackson Square	Ripple Labs	124,547	New Lease
One California Street	North Financial	US Bank	100,000	Renewal/Consolidation
300 Mission Street	South Financial	ICONIQ Capital	88,600	Sublease
275 Battery Street	North Financial	Upgrade	52,000	Renewal
275 Battery Street	North Financial	Lieff Cabraser	47,564	Renewal
One Bush Street	North Financial	Law Firm	39,935	New Lease
221 Main Street	South Financial	Prosper	35,134	Renewal
303 Second Street	South Financial	Banyan Security	28,885	Sublease

\*Renewals not included in leasing statistics.

## KEY SALE TRANSACTIONS Q2 2022

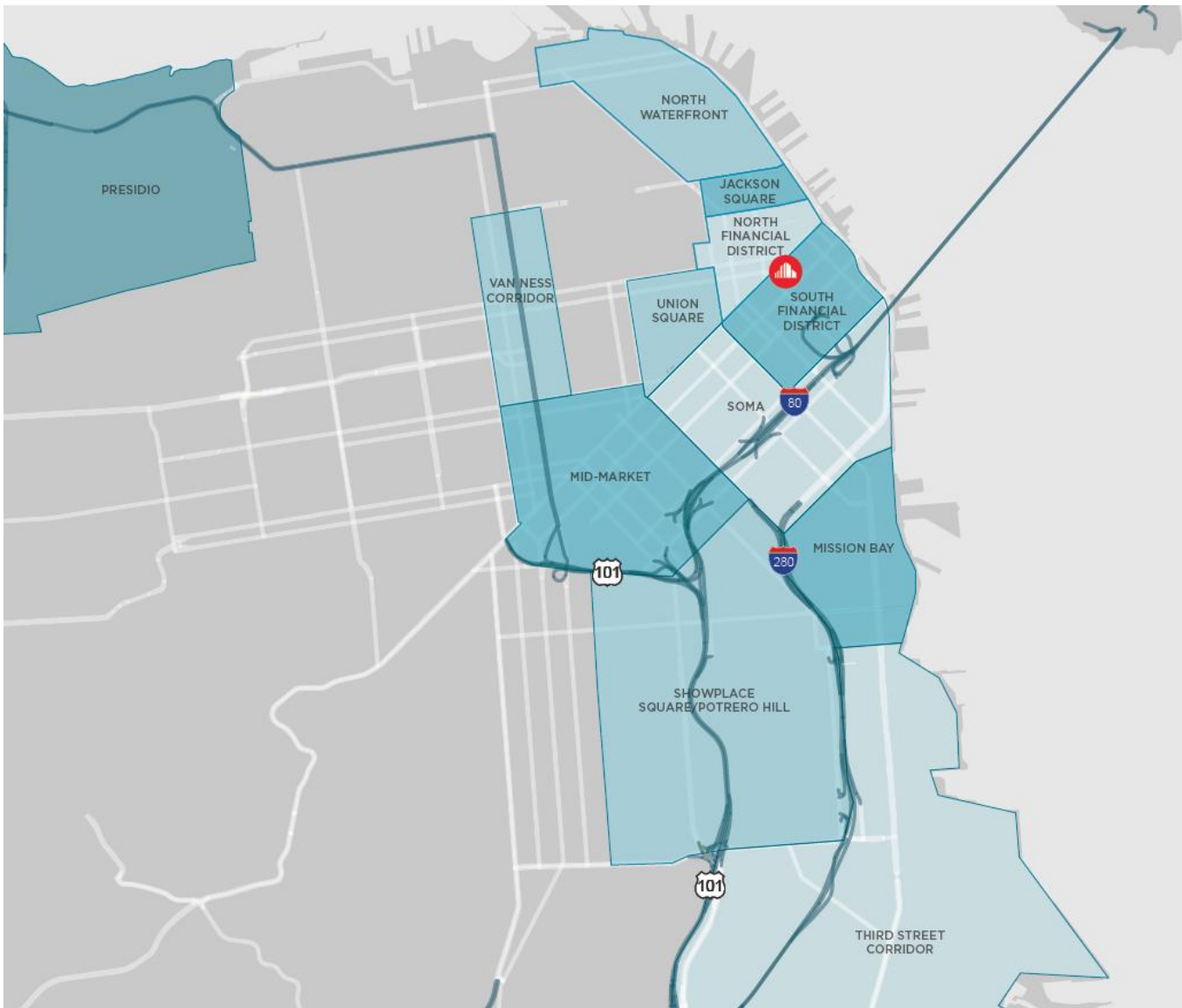
PROPERTY	SUBMARKET	SELLER/BUYER	SF	PRICE/\$ PSF
550 Terry A. Francois Blvd	Mission Bay	Gap / DivcoWest	301,200	\$356.0M/\$1,181
180 Townsend Street	SoMa	DivcoWest / Sobrato Development	40,000	\$71.0M/\$1,775

# SAN FRANCISCO

Office Q2 2022



## OFFICE SUBMARKETS



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