

	YoY Chg	12-Mo. Forecast
23.0% Vacancy Rate	▲	▲
-1.6M Net Absorption, SF	▲	▲
\$74.80 Asking Rent, PSF	▲	▼

(Overall, All Property Classes)

ECONOMIC INDICATORS Q3 2022

	YoY Chg	12-Mo. Forecast
1.18M San Francisco Metro Employment	▲	▲
2.1% San Francisco Metro Unemployment Rate	▼	—
3.5% U.S. Unemployment Rate	▼	▲

Source: BLS, Moody's Analytics
2022Q3 data are based on the latest available data

ECONOMY: Venture Capital Funding Drops

For San Francisco in the third 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. With venture capitalists being much more cautious due to the recent economic turmoil, San Francisco funding tumbled to \$5.47 billion (B) in the third quarter of 2022, down almost 50.0% from the \$10.53B recorded last quarter and the lowest since the \$3.7B in fourth quarter 2019. The top-funded San Francisco company was TeraWatt Infrastructure at \$1.0B. Employment across all sectors has trended higher in the San Francisco metro division with 71,300 new jobs year-over-year (YOY) for a growth rate of 6.4%. Office job growth has moved well above the pre-pandemic peak by 5.8% at 516,940 positions for the San Francisco metro division. Meanwhile, the unemployment rate has dropped 240 basis points (bps) YOY with the most recent figure at 2.1%.

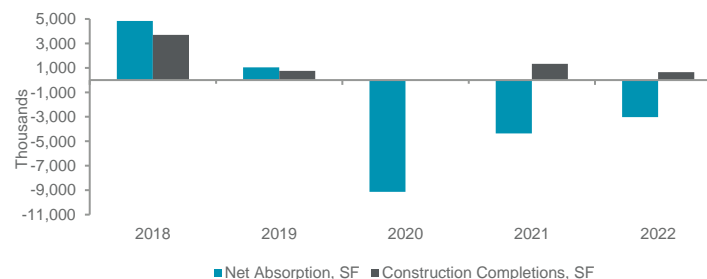
SUPPLY: Sublease Vacancy Climbed to a New High

The Citywide overall vacancy rate at the end of the third quarter of 2022 was 23.0%, up 130 bps from the 21.7% in the second quarter of 2022 and up 250 bps from the 20.5% one year ago. San Francisco sublease vacancy increased for the first time in six quarters, closing at 5.2 million square feet (msf) up 3.7% from 5.0 msf in the second quarter of 2022 and 23.1% below 6.8 msf one year ago. The largest sublease blocks on the market are former locations to Dropbox, Airbnb, and Twitter, to name a few. Direct vacancy climbed to a new high at 14.7 msf in the third quarter, up from 13.7 msf in the second quarter. The largest new direct block on the market was 354,446 sf at 50 Fremont Street.

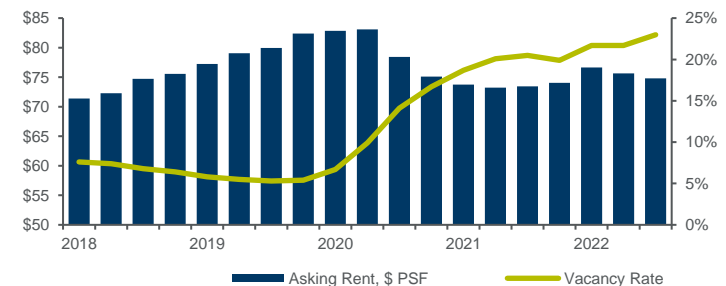
PRICING: Flight to Quality Continues as Rents Decrease

The overall average asking rent for San Francisco closed out the third quarter at \$74.80 per square foot (psf) on an annual gross basis, down 1.1% from the second quarter. The Class A Central Business District (CBD) overall asking rent closed the third quarter at \$78.15 psf, down 3.0% from the second quarter figure of \$80.55 psf though up 0.6% from \$77.65 psf one year ago. The Class A CBD direct average asking rent wrapped up the third quarter at \$81.40 psf, down from \$83.76 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; meanwhile 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 Q3 2022

CONSTRUCTION: One Delivery and One Groundbreaking

There was one new construction delivery in the third quarter - a mixed-use building at 100 Stockton Street with 171,700 square feet (sf) of Class A office, located in Union Square. Additionally, a condo tower with 235,071 sf of Class A office broke ground at 30 Van Ness Avenue in Mid-Market. There remains a total of 445,409 sf under construction or under renovation with deliveries through 2025. Proposed office projects total just over 17.3 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 third quarter was at 706,135 sf, down from 1.3 msf in the second quarter. Once again, leasing was skewed heavily towards Class A product at 538,357 sf or 76.2%. The CBD market was in control regarding overall (all classes) new leasing as well, with 517,870 sf or 73.3% of total activity. Although the top deal of the quarter was Planet Labs taking 72,000 sf at 645 Harrison Street in SoMa, North Financial was the top submarket at 343,219 sf leased, or 48.6% of total activity. Despite leasing volume being down, the submarket saw double the number of lease transactions compared to Q1 2020. This indicates companies are still making decisions but committing to smaller spaces. After seeing an improvement last quarter, Citywide overall net absorption fell further into the red at negative 1.6msf in the third quarter. The North Financial and South Financial submarkets were the centers of that negative absorption figure.

At the end of the third quarter there were 209 active requirements totaling 4.8 msf; 2.0 msf or 42.2% is from tenants connected to the technology industry. Tenant activity increased by 48.8% from 3.1 msf in the second quarter but remained 35.8% below the 7.4 msf recorded just prior to the pandemic in early March 2020.

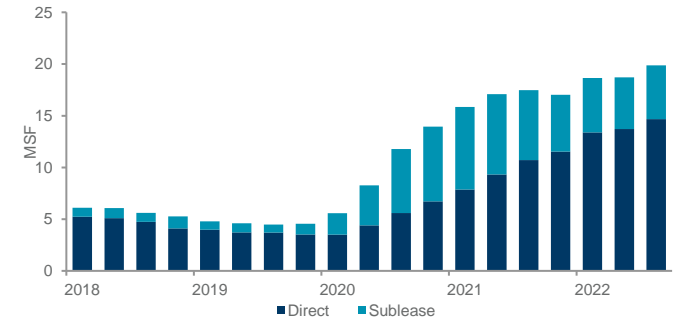
SALES: Four Transactions Close out the Quarter

There were four office sales recorded in San Francisco in the third quarter of 2022 totaling \$179.9 million (M). The largest transaction, worth \$155M, was at 300 Grant Avenue in Union Square. Hanwha Life Insurance bought the 71,832 sf Class B office building from Artha Capital and Zeno Capital. The three additional sales included 414 Brannan Street in SoMa, 1212 Market Street in Mid-Market, and 445 Bush Street in Union Square.

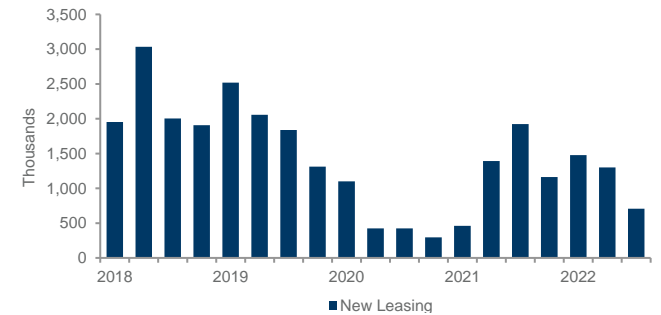
OUTLOOK

- The increase in active requirements shows tenants are gaining significant interest in returning to the office, but there are downsize trends from both tech and non tech alike.
- Despite recent layoffs and hiring freeze announcements, the number of office jobs continue to grow, and unemployment continues to fall.
- 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.

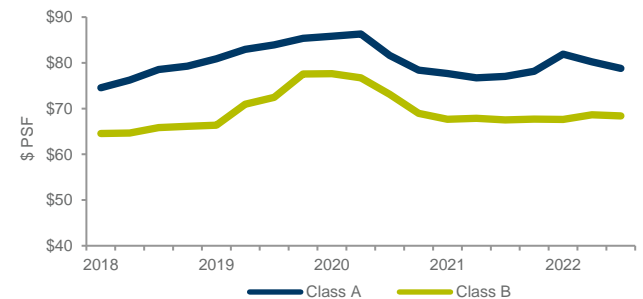
Direct vs. Sublease Vacant Space Comparison



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	26,474,789	1,048,828	5,224,350	23.7%	-365,130	-1,123,904	1,223,892	0	\$75.12	\$78.87
South Financial District	28,230,436	1,493,735	3,945,659	19.3%	-983,411	-1,254,165	1,432,451	0	\$77.11	\$77.24
CBD TOTALS	54,705,225	2,542,563	9,170,009	21.4%	-1,348,541	-2,378,069	2,656,343	0	\$75.93	\$78.15
Jackson Square	2,044,625	67,915	483,189	27.0%	-40,225	-41,650	201,324	0	\$69.02	\$78.37
Mid-Market	4,953,015	270,593	886,015	23.4%	-7,731	1,613	54,546	329,071	\$58.33	\$60.70
Mission Bay	2,812,915	453,201	0	16.1%	0	4,565	45,287	300,000	\$86.28	\$86.28
North Waterfront	3,325,672	114,041	642,780	22.8%	-51,072	-134,452	26,948	0	\$73.02	\$71.74
Showplace Square/Potrero Hill	4,181,426	766,593	202,501	23.2%	-10,815	-19,337	353,161	0	\$68.77	\$68.79
SoMa	8,909,002	840,911	2,470,371	37.2%	-92,327	-387,857	174,147	51,409	\$79.89	\$86.46
The Presidio	1,030,627	0	19,065	1.8%	0	30,959	94,023	0	\$62.00	N/A
Third Street Corridor	336,482	0	0	0.0%	0	0	0	0	N/A	N/A
Union Square	3,296,802	136,213	714,648	25.8%	-21,827	-102,636	92,545	0	\$66.77	\$79.42
Van Ness Corridor	728,356	0	93,342	12.8%	0	0	1,568	0	\$49.46	\$47.38
NON-CBD TOTALS	31,618,922	2,649,467	5,511,911	25.8%	-223,997	-648,795	1,043,549	680,480	\$73.20	\$79.95
SAN FRANCISCO TOTALS	86,324,147	5,192,030	14,681,920	23.0%	-1,572,538	-3,026,864	3,699,892	680,480	\$74.80	\$78.79

*Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q3 2022

PROPERTY	SUBMARKET	TENANT	SF	TYPE
645 Harrison Street	SoMa	Planet Labs	72,000	Renewal/Expansion
One Market Plaza	South Financial	Capital Group	70,547	Renewal
One Montgomery Street	North Financial	Pave	38,725	Sublease
525 Market Street	South Financial	Zurich American Insurance	28,041	Renewal
1885 Mission Street	Showplace Square	WeFunder	24,708	New Lease
123 Townsend Street	SoMa	Samba TV	24,327	Renewal
731 Sansome	Jackson Square	Anthropic	23,368	Renewal/Expansion

*Renewals not included in leasing statistics.

KEY SALE TRANSACTIONS Q3 2022

PROPERTY	SUBMARKET	SELLER/BUYER	SF	PRICE/\$ PSF
300 Grant Avenue	Union Square	Artha Capital JV Zenon Capital/Hanwha Life Insurance	71,832	\$155.0M / \$2,214

KEY CONSTRUCTION COMPLETIONS Q3 2022

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER/DEVELOPER
100 Stockton Street	Union Square	N/A	171,700	Morgan Stanley JV Blatteis & Schnur

OFFICE SUBMARKETS



GABRIELLA SIERRA

Senior Analyst, Research

Tel: +1 415 773 3541

gabriella.sierra@cushwake.com

ANNA BREHM

Analyst, Research

Tel: +1 415 451 2427

anna.brehm@cushwake.com

JASON KARBELK

Research Manager

Tel: +1 415 485 3742

jason.karbelk@cushwake.com

CUSHMAN & WAKEFIELD

425 Market St
Suite 2300
San Francisco, CA 94105

**A CUSHMAN & WAKEFIELD
RESEARCH PUBLICATION**

Cushman & Wakefield (NYSE: CWK) is a leading global real estate services firm that delivers exceptional value for real estate occupiers and owners. Cushman & Wakefield is among the largest real estate services firms with approximately 50,000 employees in over 400 offices and 60 countries. In 2021, the firm had revenue of \$9.4 billion across core services of property, facilities and project management, leasing, capital markets, valuation and other services. To learn more, visit www.cushmanwakefield.com or follow @CushWake on Twitter.

©2022 Cushman & Wakefield. All rights reserved. The information contained within this report is gathered from multiple sources believed to be reliable. The information may contain errors or omissions and is presented without any warranty or representations as to its accuracy.