

Office Q4 2022

	YoY Chg	12-Mo. Forecast
24.1% Vacancy Rate	▲	▲
-1.4M Net Absorption, SF	▲	▲
\$73.66 Asking Rent, PSF	▼	▼

(Overall, All Property Classes)

ECONOMIC INDICATORS Q4 2022

	YoY Chg	12-Mo. Forecast
1.19M San Francisco Metro Employment	▲	▲
2.1% San Francisco Metro Unemployment Rate	▼	▲
3.7% U.S. Unemployment Rate	▼	▲

Source: BLS, Moody's Analytics
2022Q4 data are based on the latest available data

ECONOMY: Venture Capital Funding Drops Again

For San Francisco in the fourth quarter, hybrid and remote working practices have been established as the new normal. Return-to-office (RTO) mandates along with a renewed enthusiasm for in-person working have pushed the market into a moderate recovery, post-pandemic. The Bay Bridge and San Mateo Bridge are at 89% and 78% of their pre-pandemic levels, respectively, and will likely change as companies start to make crucial workplace decisions. Venture capital (VC) funding to San Francisco-based companies tumbled 55.7% quarter-over-quarter to approximately \$2.9 billion with the deal count down to 224 from 408 over the same period. Year-over-year (YOY), funding fell 46.3% to approximately \$32.5 billion with deal count down to 1,770 from 2,280. The largest VC deals in the fourth quarter were healthcare company Komodo Health and energy company Redaptive, both at \$200 million. Employment across all sectors has trended higher in the San Francisco metro division with 60,200 new jobs YOY for a growth rate of 5.3%. Office job growth has moved well above the pre-pandemic peak by 7.3% at 525,210 positions for the San Francisco metro division. Meanwhile, the unemployment rate has dropped 170 basis points (bps) YOY with the most recent figure at 2.1%.

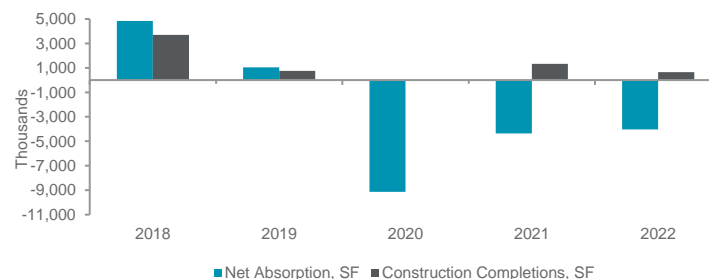
SUPPLY: Tech Layoffs Bring More Sublease Vacancy

The Citywide overall vacancy rate at the end of the fourth quarter of 2022 was 24.1%, up 110 bps from the 23.0% in the third quarter and up 420 bps from the 19.9% one year ago. Direct vacancy climbed to a new high at 15.2 million square feet (msf) in the fourth quarter, up from 14.7 msf in the third quarter. San Francisco sublease vacancy increased once again, closing at 5.6 msf up 7.6% from 5.2 msf in the third quarter of 2022 and 5.8% above 5.5 msf one year ago. In the fourth quarter, 1.2 msf of available sublease space came on the market largely by tech companies. The addition of these sublease spaces can partially be attributed to the 6,000+ tech layoffs in San Francisco MSA in the fourth quarter of 2022. The largest sublease block on the market is Dropbox at 416,149 square feet (sf). The largest direct block on the market is 617,600 sf at 415 Natoma Street, completed in the first quarter of 2022.

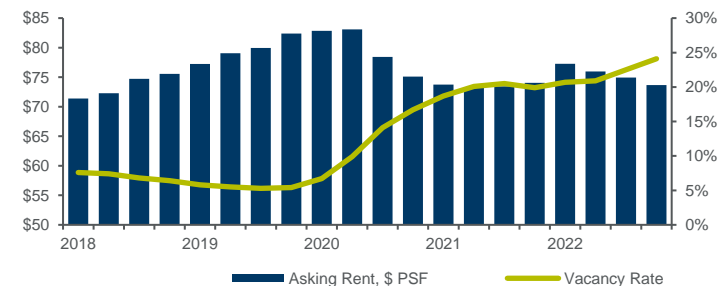
PRICING: Flight to Quality Continues as Tenants Search for Better Product

The overall average asking rent for San Francisco closed out the fourth quarter at \$73.66 per square foot (psf) on an annual gross basis, down 1.5% from the third quarter. The Class A Central Business District (CBD) overall asking rent closed the fourth quarter at \$77.32 psf, down 1.1% from the third quarter, and down 2.2% from one year ago. The overall asking rent for Tier 1 buildings closed at \$96.91 psf, a 6.6% decrease from \$103.78 psf in the third quarter. The Class A non-CBD direct average asking rent wrapped up the fourth quarter at \$85.10 psf, compared to \$81.31 psf for Class A CBD direct. The decrease in asking rents is due to more options for quality space and a lack of urgency for occupiers to make leasing decisions. CBD rents in top tier buildings remain strong, and differentiated spaces in non-CBD markets are on par with or even surpass those Class A CBD rents.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



SAN FRANCISCO



Office Q4 2022

CONSTRUCTION: Three Completions on Track for Next Year

There remains a total of 680,480 sf under construction or under renovation with deliveries expected through 2025. Three of those projects totaling 445,409 sf are estimated to be completed in 2023: 1035 Howard St, 531 Bryant St, and most notably Mission Rock Phase 1. After topping out earlier this year, the 300,000 sf future Visa Headquarters will join an additional 300,000 sf building designed for life science tenants. 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: Renewals Compete with New Leasing Activity

New leasing activity Citywide for the fourth quarter was at 732,895 sf, up from 706,135 in the third quarter. Once again, leasing was skewed heavily towards Class A product at 469,951 sf or 64.1%. The CBD market was in control regarding overall (all classes) new leasing as well, with 532,415 sf or 72.7% of total activity. Although the top new lease of the quarter was Convene taking 65,413 sf at 100 Stockton St in Union Square, North Financial was the top submarket with a total of 392,840 sf leased, or 53.6% of total activity. For the first time this year, renewal activity slightly surpassed new leasing at 759,287 sf. Despite overall leasing volume being down, notable tenants like Levi Strauss and DocuSign are committing to staying in San Francisco. Tenants connected to Finance, Insurance, and Real Estate (FIRE) are the top industry by deal count in both new leases and renewals.

At the end of the fourth quarter there were 215 active requirements totaling 3.8 msf; 1.2 msf or 30.6% is from tenants connected to the technology industry. Tenant activity decreased by 20.0% from 4.8 msf in the third quarter and remained 48.7% below the 7.4 msf recorded just prior to the pandemic in early March 2020. This decrease is due to tenants seeking a smaller size range, with under 10,000 sf taking up almost half of the requirement count.

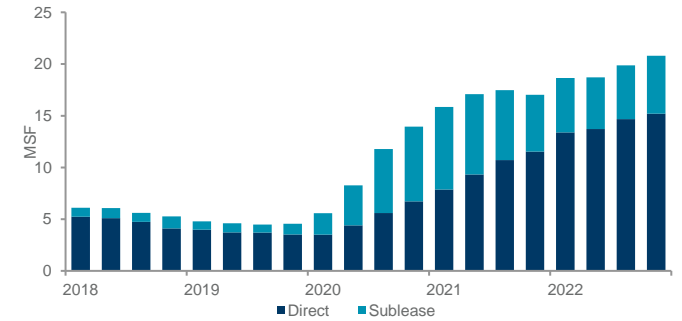
SALES: More Activity Ahead

There were no major office sales recorded in San Francisco in the fourth quarter of 2022. This is largely attributed to the rapid increase in interest rates and the slow leasing velocity. Activity is expected to pick up in the first half of 2023 due to a large quantity of maturing loans, and borrowers becoming more confident about the direction of the economy and the potential for successful real estate investments.

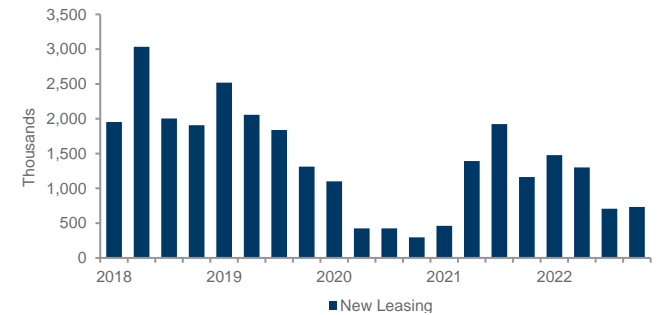
OUTLOOK

- Although the size of tenant activity decreased, the number of requirements slightly increased, showing tenants remain interested in returning to the office, but are downsizing their office space needs.
- The technology industry is expected to continue to reduce its footprint, in both leasing activity and active requirements, which will bring increased leverage to the FIRE, professional services, and legal industries.
- Lease term trends are likely to change and offering concessions may be crucial in older buildings and shell space to generate leasing activity.
- While the number of office jobs continue to grow, this quarter's layoffs are expected to increase the overall unemployment rate YOY.

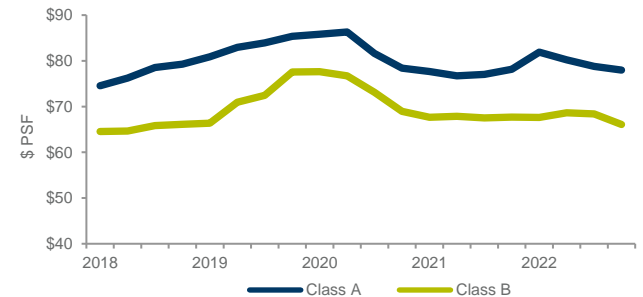
Direct vs. Sublease Vacant Space Comparison



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	1,211,822	5,483,345	25.3%	-500,831	-1,545,784	1,616,651	0	\$74.92	\$78.87
South Financial District	28,230,406	1,527,652	4,001,776	19.6%	-230,109	-1,340,148	1,605,619	0	\$75.37	\$75.39
CBD TOTALS	54,705,195	2,739,474	9,485,121	22.3%	-730,940	-2,885,932	3,222,270	0	\$75.11	\$77.32
Jackson Square	2,044,625	45,068	524,276	27.8%	-10,156	-59,890	278,011	0	\$62.72	\$76.65
Mid-Market	4,952,979	270,593	794,121	21.5%	-16,626	93,507	79,616	329,071	\$57.63	\$61.02
Mission Bay	2,812,915	484,009	0	17.2%	-30,808	-26,243	45,287	300,000	\$86.28	\$86.28
North Waterfront	3,352,392	154,929	676,351	24.8%	-45,660	-182,191	37,429	0	\$73.87	\$74.26
Showplace Square/Potrero Hill	4,154,082	928,091	268,782	28.8%	-247,533	-257,054	353,161	0	\$68.19	\$68.06
SoMa	8,913,596	854,212	2,580,580	38.5%	-272,073	-606,229	197,202	51,409	\$77.75	\$86.00
The Presidio	1,030,627	5,550	19,065	2.4%	-5,550	25,409	94,023	0	\$62.00	\$62.00
Third Street Corridor	336,482	0	0	0.0%	0	0	0	0	N/A	N/A
Union Square	3,296,802	122,703	748,617	26.4%	-36,511	-125,058	202,055	0	\$63.94	\$75.79
Van Ness Corridor	728,356	0	98,269	13.5%	-4,927	-4,927	13,384	0	\$50.39	\$49.90
NON-CBD TOTALS	31,622,856	2,865,155	5,710,061	27.1%	-669,844	-1,142,676	1,300,168	680,480	\$71.56	\$79.29
SAN FRANCISCO TOTALS	86,328,051	5,604,629	15,195,182	24.1%	-1,400,784	-4,028,608	4,522,438	680,480	\$73.66	\$78.00

*Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q4 2022

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
Levi's Plaza	North Waterfront	Levi Strauss	367,000	Renewal
221 Main Street	South Financial	DocuSign	93,132	Renewal
160 Spear Street	South Financial	Databricks	69,291	Renewal/Expansion
100 Stockton Street	Union Square	Convvene*	65,413	New Lease
44 Montgomery Street	North Financial	Federal Communications Commission	47,800	New Lease
220 Montgomery Street	North Financial	Gensler	45,472	New Lease
360 Third Street	SoMa	NBC Universal	37,500	Renewal
Pier 3	North Financial	Bloomberg	32,000	Renewal
450 Pacific Avenue	Jackson Square	Bain Capital	28,586	New Lease
30 Grant Avenue/77 Geary Street	Union Square	American Conservatory Theater	25,831	Renewal
353 Sacramento Street	North Financial	Persona	25,000	New Lease
50 California Street	North Financial	Jackson Lewis	23,632	Renewal

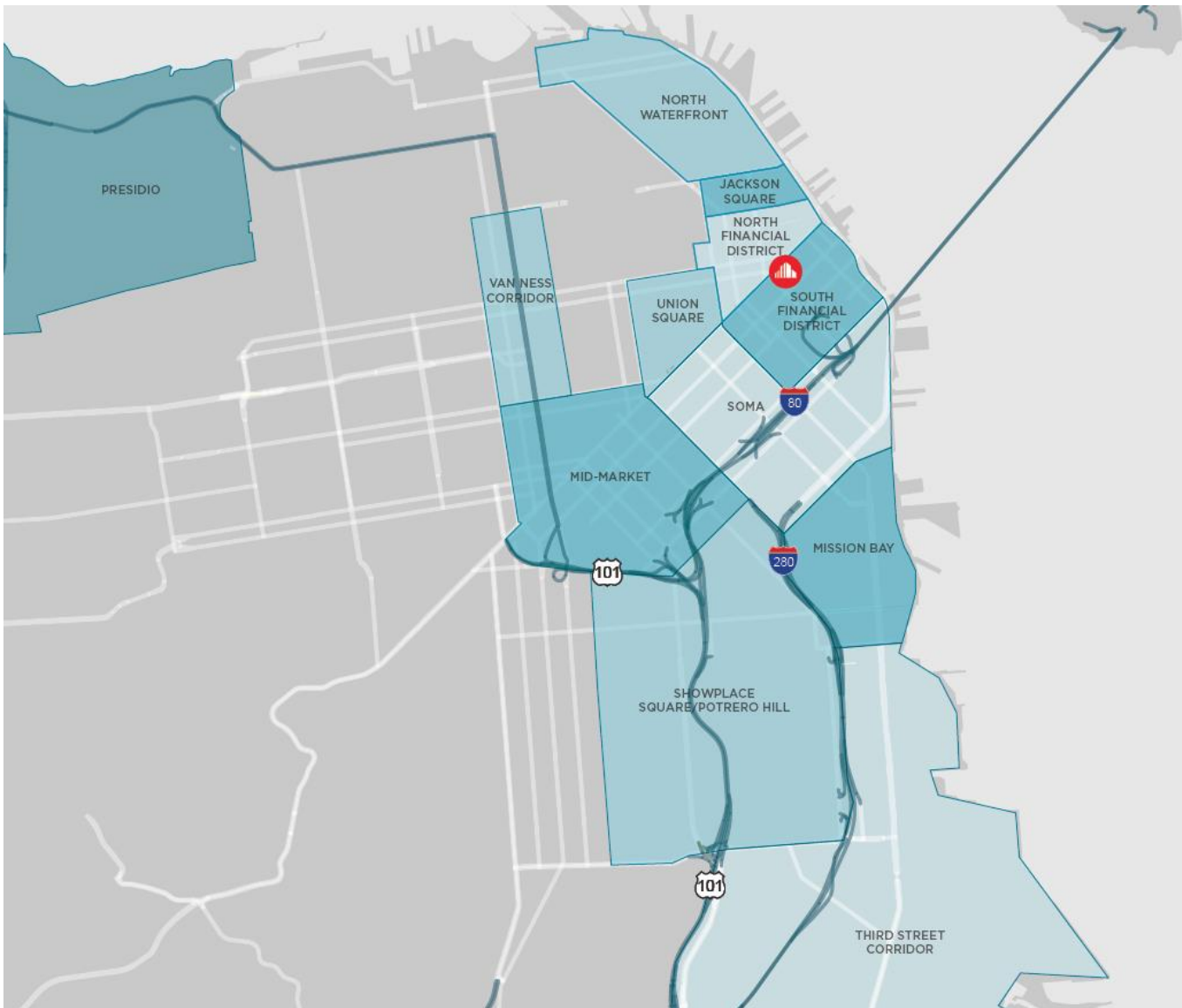
*Convvene space zoned PDR

**Renewals not included in leasing statistics.

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