

24.8%
Vacancy Rate



-1.7M
Net Absorption, SF



\$72.26
Asking Rent, PSF



(Overall, All Property Classes)

ECONOMIC INDICATORS Q1 2023

1.21M
San Francisco Metro Employment



2.5%
San Francisco Metro Unemployment Rate



3.5%
U.S. Unemployment Rate



Source: BLS, Moody's Analytics
2023Q1 data are based on the latest available data

ECONOMY: Venture Capital Funding Increases

For San Francisco in the first quarter, the trend toward hybrid work and flexible office arrangements continued as companies sought to meet the evolving needs of their workforce. The labor force showed significant recovery, with only a 1.2% gap remaining from its pre-pandemic peak in January 2020. Layoffs, especially among technology companies, have grown substantially since mid-year 2022 and the expectation is that that trend will continue throughout 2023. With that said, employment in the San Francisco metro division expanded by 44,100 new jobs year-over-year (YOY) for a growth rate of 3.8%. Office job growth has moved well above the pre-pandemic peak by 7.9% at 531,600 positions for the San Francisco metro division. Meanwhile, the unemployment rate has dropped 100 basis points (bps) YOY with the most recent figure at 2.5%. Vitrally important to this tech-heavy market is venture capital funding. Though it had been trending lower since the beginning of 2022, funding to San Francisco-based companies climbed 38.6% to \$5.1 billion quarter-over-quarter. The city captured 13.8% of all funding that took place in the United States during the first three months of the year. The largest deals were Generate at \$860.6 million, Xpansiv for \$525 million, and Rippling for \$500 million.

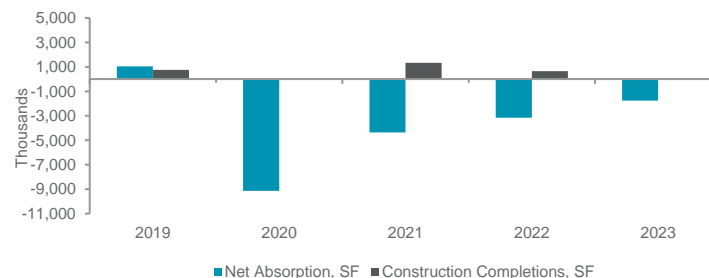
SUPPLY: Sublease Vacancy Declines Despite Newly Added Large Block

The Citywide overall vacancy rate at the end of the first quarter of 2023 was 24.8%, up 70 bps from 24.1% in the fourth quarter of 2022 and up 310 bps from 21.7% one year ago. Direct vacancy climbed to a new high at 15.8 million square feet (msf), up from 15.2 msf in the fourth quarter. San Francisco sublease vacancy slightly decreased due to inventory adjustments, closing at 5.3 msf, down 5.8% from 5.6 msf in the fourth quarter of 2022 and on par with 5.3 msf one year ago. In the first quarter, 744,193 square feet (sf) of available sublease space came on the market largely by tech companies. The addition of these sublease spaces can partially be attributed to the 4,000+ tech layoffs in San Francisco County in the first quarter of 2023. The largest and newest sublease block on the market is Meta's 435,000 sf space at 181 Fremont. The largest direct block on the market is 617,600 sf at 415 Natoma Street.

PRICING: Tenants Continue their Search for Premium Space

The overall average asking rent for San Francisco closed out the first quarter at \$72.26 per square foot (psf) on an annual gross basis, down 1.9% from the fourth quarter of 2022. The Class A Central Business District (CBD) overall asking rent closed the first quarter at \$76.91 psf, down 0.5% from the fourth quarter of 2022, and down 5.5% from one year ago. The overall asking rent for Tier 1 buildings closed at \$97.61 psf, a 0.7% increase from \$96.91 psf in the fourth quarter. The Class A non-CBD direct average asking rent wrapped up the first quarter at \$83.66 psf, compared to \$81.34 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 Q1 2023

CONSTRUCTION: Large Completion on Track for This Year

A total of 586,480 sf under construction or under renovation with deliveries expected through 2025. One of those projects is estimated to be completed in 2023: Mission Rock Phase 1. After topping out early last 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: Class A Dominates New Leasing

New leasing activity Citywide for the first quarter was at 662,303 sf, down from 732,895 in the fourth quarter of 2022. Once again, leasing was skewed heavily towards Class A product at 482,349 sf or 72.8%. The CBD market was in control regarding overall (all classes) new leasing as well, with 504,246 sf or 76.1% of total activity. South Financial was the top submarket with a total of 268,242 sf leased, or 40.5% of total activity.

At the end of the first quarter there were 253 active requirements totaling 4.5 msf. Tenant activity increased by 17.6% from 3.8 msf in the fourth quarter and remained 39.6% below the 7.4 msf recorded just prior to the pandemic in early March 2020.

In both new leasing and active requirements, tenants continue to seek spaces under 10,000 sf, with 76.1% of new leases and 43.5% of requirements accounting for that size range. In those same categories, the technology industry accounts for 36.8% of new leases and 1.7 msf or 39.2% of active requirements. Although tech companies continue to loom large in San Francisco, their weariness to commit is clear: new tech leases this quarter have an average term of 38 months compared to 82 months for professional services.

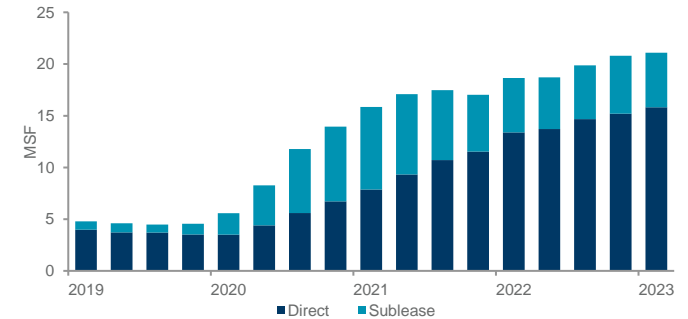
SALES: Three Transactions Start out the Year

There were three office sales recorded in San Francisco in the first quarter of 2023 totaling \$173.3 million (M). The largest transaction, worth \$82.5M, was at One Harrison Street in SoMa. The Sobrato Organization bought the 161,650 sf office building from Gap Inc, who plans to vacate the property.

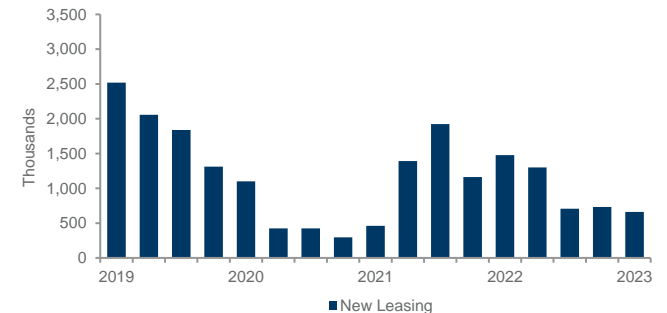
OUTLOOK

- The increase in tenant requirements shows companies remain interested in returning to the office, but smaller users and those downsizing will continue to drive the demand for space.
- 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 Finance, Insurance, and Real Estate (FIRE), professional services, and legal industries.
- The current debt market and large quantity of maturing loans in 2023 may bring pressure and challenges to both owners and occupiers alike.

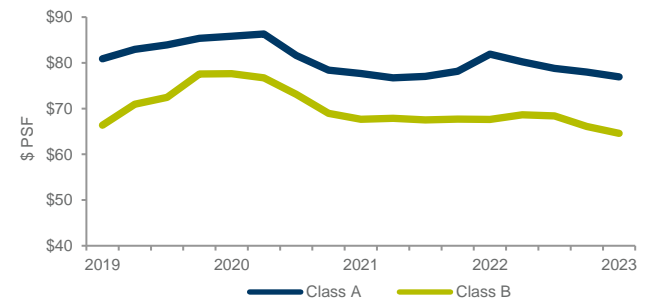
Direct vs. Sublease Vacant Space Comparison



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	1,289,531	5,750,959	26.6%	-649,902	-649,902	236,004	0	\$74.96	\$79.77
South Financial District	28,230,406	1,578,885	4,155,455	20.3%	-414,129	-414,129	268,242	0	\$73.43	\$73.65
CBD TOTALS	54,705,195	2,868,416	9,906,414	23.4%	-1,064,031	-1,064,031	504,246	0	\$74.32	\$76.91
Jackson Square	2,044,625	33,678	557,106	28.9%	-42,792	-42,792	30,184	0	\$63.80	\$77.36
Mid-Market	4,827,147	95,843	689,165	16.3%	7,239	7,239	0	235,071	\$56.20	\$69.01
Mission Bay	1,629,440	34,459	0	2.1%	0	0	0	300,000	N/A	N/A
North Waterfront	3,352,964	193,941	704,597	26.8%	-76,148	-76,148	39,599	0	\$72.71	\$74.35
Showplace Square/Potrero Hill	4,002,082	945,028	349,727	32.4%	-165,757	-165,757	11,395	0	\$67.58	\$68.33
SoMa	9,078,205	958,078	2,760,980	41.0%	-366,959	-366,959	25,569	51,409	\$73.11	\$80.37
The Presidio	1,030,627	13,452	37,132	4.9%	-35,969	-35,969	1,000	0	\$110.73	\$121.64
Third Street Corridor	336,482	0	0	0.0%	0	0	0	0	N/A	N/A
Union Square	3,296,802	133,932	711,109	25.6%	-10,640	-10,640	50,310	0	\$63.52	\$74.41
Van Ness Corridor	728,356	0	98,369	13.5%	-100	-100	0	0	\$45.25	\$47.33
NON-CBD TOTALS	30,326,730	2,408,411	5,908,185	27.4%	-691,126	-691,126	158,057	586,480	\$68.88	\$77.04
SAN FRANCISCO TOTALS	85,031,925	5,276,827	15,814,599	24.8%	-1,755,157	-1,755,157	662,303	586,480	\$72.26	\$76.95

*Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q1 2023

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
500 Terry Francois Boulevard	Mission Bay	Cisco Meraki	234,537	Renewal
555 Market Street	South Financial	Waymo	76,669	Renewal/Expansion
One Embarcadero Center	North Financial	Gibson Dunn	50,000	New Lease
180 Montgomery Street	North Financial	Bank of the West	49,399	Renewal
303 Second Street	South Financial	Reddit	47,872	New Lease
535 Mission Street	South Financial	Zillow	26,646	Renewal
425 Market Street	South Financial	Shartsis Friese	26,158	New Lease
One Bush Street	North Financial	Gunderson Dettmer	24,265	Renewal/Expansion

*Renewals not included in leasing statistics.

KEY SALE TRANSACTIONS Q1 2023

PROPERTY	SUBMARKET	SELLER/BUYER	SF	PRICE/\$ PSF
One Harrison Street	SoMa	The Gap Inc/The Sobrato Organization	161,650	\$82.5M/\$510
345 4 th Street	SoMa	T2 Hospitality/Taipei Economic & Cultural Office	59,337	\$52.8M/\$890
807 Montgomery Street	Jackson Square	Daniel Sabah & Joshua Sabah/807 Montgomery Street LLC	10,397	\$38.0M/\$3,655


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

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