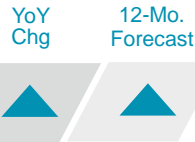


27.1%
Vacancy Rate



-2.3M
Net Absorption, SF



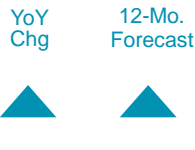
\$72.16
Asking Rent, PSF



(Overall, All Property Classes)

ECONOMIC INDICATORS Q2 2023

1.21M
San Francisco Metro Employment



2.7%
San Francisco Metro Unemployment Rate



3.6%
U.S. Unemployment Rate



Source: BLS, Moody's Analytics
2023Q2 data are based on the latest available data

ECONOMY: AI Leads VC Funding

For San Francisco in the second quarter, the trend toward hybrid work and flexible office arrangements continued as companies sought to meet the evolving needs of their workforce. Layoffs, especially among technology companies, have grown substantially since mid-year 2022 and will likely continue throughout the remainder of 2023. With that said, employment in the San Francisco metro division expanded by 32,000 new jobs year-over-year (YOY) for a growth rate of 2.7%. Office job growth has moved well above the pre-pandemic peak by 8.1% at 532,640 positions for the San Francisco metro division. Meanwhile, the unemployment rate rose 40 basis points (bps) YOY with the most recent figure at 2.7%. Vitrally important to this tech-heavy market is venture capital funding. After an increase last quarter, funding to San Francisco-based companies dropped 72.8% to \$4.1 billion quarter-over-quarter. Two large deals in the second quarter were Anthropic at \$450 million and OpenAI at \$300 million, signaling the importance of Artificial Intelligence (AI) to the San Francisco economy.

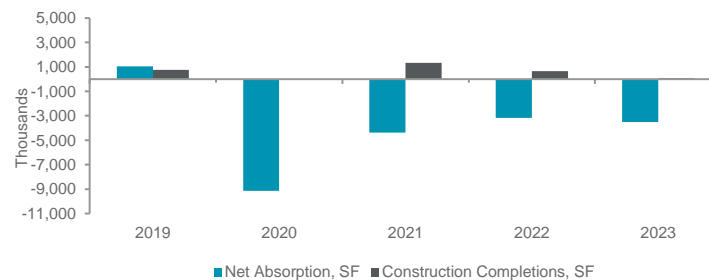
SUPPLY: Large Sublease Blocks Hit the Market

The Citywide overall vacancy rate at the end of the second quarter of 2023 was 27.1%, up 230 bps from 24.8% in the first quarter and up 540 bps from 21.7% one year ago. Direct vacancy climbed to a new high at 16.8 million square feet (msf), up from 15.8 msf in the first quarter. San Francisco sublease vacancy increased to 6.3 msf, up 19.1% from 5.3 msf in the first quarter and an increase from the 5.0 msf one year ago. In the second quarter, 1.8 msf of available sublease space came on the market largely by tech companies, including Uber, Slack, and Salesforce. The addition of these sublease spaces can be attributed to the 6,000+ tech layoffs in San Francisco County in the second quarter, along with the fact that software positions continue to be primarily remote or hybrid. The largest sublease block on the market is Meta's 435,000 square feet (sf) space at 181 Fremont Street, with an occupancy of January 2024. The largest direct block on the market at mid-year was 687,000 sf at 50 Fremont Street, with a mix of current and future occupancy.

PRICING: Tenants Continue their Search for Premium Space

The overall average asking rent for San Francisco closed out the second quarter at \$72.16 per square foot (psf) on an annual gross basis, down 0.14% from the first quarter. The Class A Central Business District (CBD) overall asking rent closed the second quarter at \$76.40 psf, down 0.7% from the first quarter, and down 5.2% from one year ago. The overall asking rent for Tier 1 buildings closed at \$105.51 psf, a 0.9% increase from \$104.58 psf in the first quarter. The Class A non-CBD direct average asking rent wrapped up the second quarter at \$83.17 psf, compared to \$80.02 psf for Class A CBD direct. 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



CONSTRUCTION: One Delivery Closes out the Quarter

The second quarter of 2023 brought one completion: Building 12 at Pier 70. The mixed-use building in Third Street Corridor includes 70,000 sf of office space and 40,000 sf of retail space. A total of 586,480 sf is 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.

DEMAND: Class A Dominates Leasing Activity

Total leasing activity (new leases and renewals) citywide for the second quarter was at 949,710 sf, down from 1,398,551 sf in the first quarter of 2023. Once again, leasing was skewed heavily towards Class A product at 743,954 sf or 78.3%. The CBD market was in control regarding overall (all classes) leasing as well, with 776,403 sf or 81.8% of total activity. North Financial was the top submarket with a total of 433,979 sf leased, or 45.7% of total activity.

At the end of the second quarter there were 246 active requirements totaling 4.9 msf. Tenants in the market increased by 8.8% from 4.5 msf in the first quarter, though remained 34.3% below the 7.4 msf recorded just prior to the pandemic in early March 2020.

Most of the tenants signing new leases or actively searching for space have been in the 10,000 sf or less segment, with 78.8% of new leases and 45.9% of requirements accounting for that size range. In those same categories, the technology industry accounts for 16.3% of new leases and 2.0 msf or 42.0% of active requirements. Although tech companies continue to loom large in San Francisco, their caution to commit to longer term deals is clear: new tech leases this quarter have an average term of 48.5 months compared to 58.5 months for professional services.

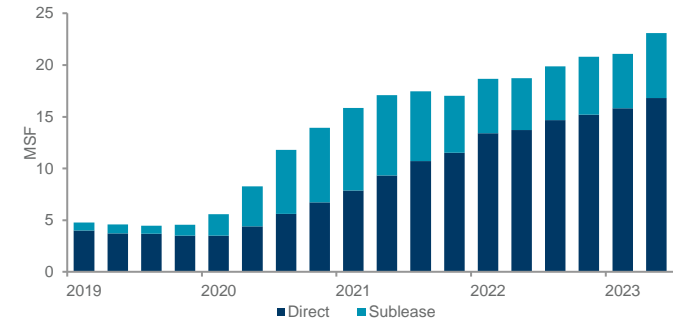
SALES: One Transaction in South Financial District

There was one office sale recorded in San Francisco in the second quarter of 2023, closing at \$17.6 million (M). DRA Advisors bought the 37,000-sf building at 40 Jessie Street in the South Financial District from Golden Gate University. This quarter also brought multiple pending sales at values below their original sale prices, which will reveal the new valuation of office in our current economic climate.

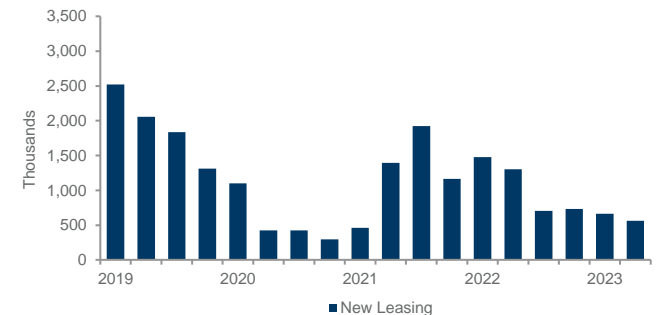
OUTLOOK

- Vacancy is expected to increase for the remainder of 2023, with at least 4.0 msf of space set to expire in the last half of the year.
- 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.
- AI's anticipated presence may partially revive the technology industry's footprint in San Francisco, with the sector's active requirements totaling over 800,000 sf, focused on non-CBD submarkets.

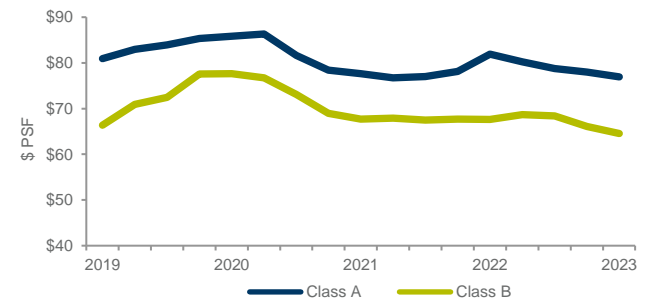
Direct vs. Sublease Vacant Space Comparison



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	1,269,700	6,045,437	27.6%	-453,182	-817,347	992,366	0	\$73.81	\$77.82
South Financial District	28,238,549	2,297,729	4,730,887	24.9%	-1,426,469	-1,660,266	743,921	0	\$74.23	\$75.12
CBD TOTALS	54,713,338	3,567,429	10,776,324	26.2%	-1,879,651	-2,477,613	1,736,287	0	\$74.01	\$76.40
Jackson Square	2,044,625	61,834	398,140	22.5%	145,193	101,860	64,970	0	\$63.09	\$77.30
Mid-Market	4,827,147	403,891	632,257	21.5%	-313,063	-248,635	50,471	235,071	\$56.24	\$67.27
Mission Bay	1,629,440	284,212	0	17.4%	-249,753	-249,753	234,537	300,000	\$87.59	\$87.59
North Waterfront	3,352,964	168,452	694,496	25.7%	0	-64,142	40,425	0	\$73.06	\$75.16
Showplace Square/Potrero Hill	4,006,625	728,237	507,893	30.9%	17,036	-107,132	30,089	0	\$66.48	\$62.60
SoMa	9,099,134	949,857	2,939,484	42.7%	-130,379	-511,923	102,618	51,409	\$71.74	\$79.20
The Presidio	1,030,627	6,902	38,929	4.4%	-797	-31,216	1,000	0	\$116.61	\$130.07
Third Street Corridor	406,482	0	0	0.0%	70,000	70,000	6,620	0	N/A	N/A
Union Square	3,296,802	115,600	703,965	24.9%	2,574	21,251	80,866	0	\$64.17	\$75.72
Van Ness Corridor	728,356	0	105,257	14.5%	-6,888	-6,988	378	0	\$45.27	\$47.42
NON-CBD TOTALS	30,422,202	2,718,985	6,020,421	28.7%	-466,077	-1,026,678	611,974	586,480	\$69.03	\$76.19
SAN FRANCISCO TOTALS	85,135,540	6,286,414	16,796,745	27.1%	-2,345,728	-3,504,291	2,348,261	586,480	\$72.16	\$76.33

*Rental rates reflect full service asking

*Renewals included in leasing statistics as of Q2 2023

KEY LEASE TRANSACTIONS Q2 2023

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
One Market Street	South Financial	Autodesk	97,000	Renewal/Downsize
One Montgomery Street	North Financial	Stifel	70,256	Renewal/Downsize
100 First Street	South Financial	Hive	57,117	Sublease
333 Bush Street	North Financial	Willkie Farr & Gallagher	44,049	Sublease
989 Market Street	Mid-Market	Zendesk	34,891	Renewal
101 California Street	North Financial	Business Wire	25,890	Renewal/Downsize

KEY SALE TRANSACTIONS Q2 2023

PROPERTY	SUBMARKET	SELLER/BUYER	SF	PRICE/\$ PSF
40 Jessie Street	South Financial	Golden Gate University/DRA Advisors	37,000	\$17.6M/\$475.68

KEY CONSTRUCTION COMPLETIONS Q2 2023

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER/DEVELOPER
Pier 70 (Building 12)	Third Street Corridor	N/A	70,000	Brookfield/Port of San Francisco



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

About Cushman & Wakefield

Cushman & Wakefield (NYSE: CWK) is a leading global commercial real estate services firm for property owners and occupiers with approximately 52,000 employees in approximately 400 offices and 60 countries. In 2022, the firm reported revenue of \$10.1 billion across its core services of property, facilities and project management, leasing, capital markets, and valuation and other services. It also receives numerous industry and business accolades for its award-winning culture and commitment to Diversity, Equity and Inclusion (DEI), Environmental, Social and Governance (ESG) and more. For additional information, visit www.cushmanwakefield.com.

©2023 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.