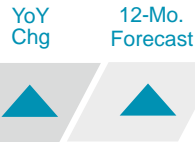


**30.4%**  
Vacancy Rate



**-2.3M**  
Net Absorption, SF



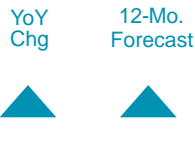
**\$70.86**  
Asking Rent, PSF



(Overall, All Property Classes)

## ECONOMIC INDICATORS Q3 2023

**1.21M**  
San Francisco Metro Employment



**3.0%**  
San Francisco Metro Unemployment Rate



**3.7%**  
U.S. Unemployment Rate



Source: BLS, Moody's Analytics  
2023Q3 data are based on the latest available data

## ECONOMY: San Francisco Leads VC Funding

For San Francisco in the third quarter, the market's ongoing uncertainty persists as companies navigate the challenges posed by hybrid work models and flexible office arrangements. With that said, employment in the San Francisco metro division expanded by 28,300 new jobs year-over-year (YOY) for a growth rate of 2.4%. Office jobs, despite numerous announced layoffs this year, remain above the pre-pandemic peak by 7.0% at 527,450 positions for the San Francisco metro division. Meanwhile, the unemployment rate rose 80 basis points (bps) YOY with the most recent figure at 3.0%. Vitally important to this tech-heavy market is venture capital funding. After a sharp increase in the first quarter, funding to San Francisco-based companies has dropped in the past two quarters. However, San Francisco proper remains above every other North American market in terms of venture capital this year and is equal to the next two highest metros combined. Generative AI funding is currently the dominant trend, with San Francisco-based companies securing 70% of the global AI funding year-to-date.

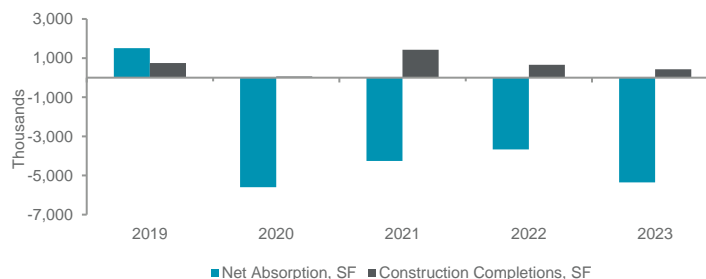
## SUPPLY: Sublease Availability Rises

The Citywide overall vacancy rate at the end of the third quarter of 2023 was 30.4%, up 280 bps from 27.6% in the second quarter and up 730 bps from 23.1% one year ago. Direct vacancy climbed to a new high at 18.5 million square feet (msf), up from 16.9 msf in the second quarter. San Francisco sublease vacancy increased to 7.5 msf, up 17.4% from 6.4 msf in the second quarter and an increase from the 5.0 msf one year ago. In the third quarter, 677,059 square feet (sf) of available sublease space came on the market, a 62% decrease from the second quarter. Nevertheless, the sublease availability rate has been steadily climbing since early this year, partially due to major tech companies putting their space on the market and subsequently vacating. This trend was sparked by the 7,900+ tech layoffs in San Francisco County so far this year, coupled with the ongoing shift towards fully remote or hybrid work practices. The largest sublease block on the market is Meta's 435,000 sf space at 181 Fremont Street, which became vacant this quarter. The largest direct block on the market is 687,109 sf at 50 Fremont Street, with a mix of current and future occupancy.

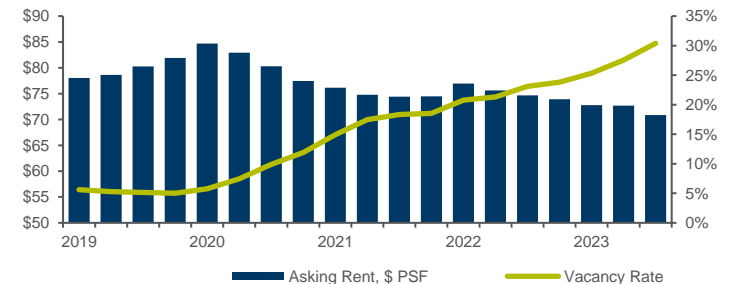
## PRICING: Rental Rates Decline with Increased Availability of Space

The overall average asking rent for San Francisco closed out the third quarter at \$70.86 per square foot (psf) on an annual gross basis, down 2.5% from the second quarter. The Class A Central Business District (CBD) overall asking rent closed the third quarter at \$73.86 psf, down 4.1% from the second quarter, and down 6.0% from one year ago. The overall asking rent for Tier 1 buildings closed at \$98.91 psf, a 6.3% decrease from \$105.51 psf in the second quarter. The Class A non-CBD direct average asking rent wrapped up the third quarter at \$82.77 psf, compared to \$76.95 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 third quarter of 2023 brought the completion of Building G at Mission Rock, Visa's new Headquarters. The mixed-use building in Mission Bay includes 300,000 sf of Class A office space and 18,000 sf of retail space. Visa is relocating to Mission Rock from One Market Plaza and has listed its former 143,000 sf space for sublease. The only development currently under construction is 531 Bryant Street in SoMa. The 51,000-sf building is expected to be completed by early 2024 and currently has no pre-leasing. Proposed office projects total just over 17.5 msf, with the majority of it either in Central SoMa or along the Third Street Corridor.

### DEMAND: Non-CBD Leases on the Rise

Total leasing activity (new leases and renewals) citywide for the third quarter was at 1,133,998 sf, up from 1,026,913 sf in the second quarter of 2023. Once again, leasing was skewed heavily towards Class A product at 768,135 sf or 67.7%. The CBD market was in control regarding overall (all classes) leasing, with 720,239 sf or 63.5% of total activity. Although the CBD took most of the leasing activity, their dominance decreased in the third quarter. Half of the top 10 leases were in non-CBD markets, with three of those going to AI companies. This up-and-coming technology sector has turned these non-CBD, creative buildings into valid competitors against the usually popular CBD (North and South Financial) submarkets. Partly due to the rise in AI leases, subleases also picked up this quarter, accounting for 56.5% of new leases (excluding renewals), compared to 47.7% in the second quarter.

At the end of the third quarter there were 229 active requirements totaling 5.3 msf. Tenants in the market increased by 10.0% from 4.9 msf in the second quarter, although demand remained 27.7% below the 7.4 msf recorded just prior to the pandemic in early March 2020.

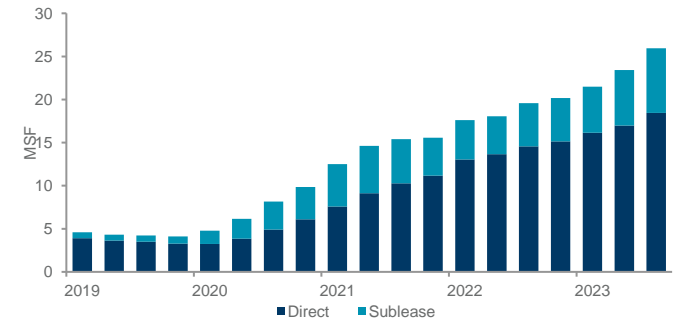
### SALES: Increase in Sales Confirms New State of Investment Market

There were four transactions recorded in San Francisco in the third quarter of 2023, closing at \$167.8 million (M) total. The sales included 350 California Street (\$61.0M), 60 Spear Street (\$41.0M), 550 California Street (\$40.5M), and 600 Townsend Street (\$25.4M). All sales closed at significant discounts from prior evaluations, reflecting the new state of the office investment market in San Francisco.

### OUTLOOK

- Vacancy is expected to increase for the remainder of 2023, with about 2.0 msf of leases set to expire in the last quarter of the year.
- The increase in subleases shows that companies remain interested in returning to the office but are committing to less space and shorter term.
- AI companies have secured substantial VC funding and that is now equating to leasing activity; this will continue into the fourth quarter as many subleases are now in for consent.

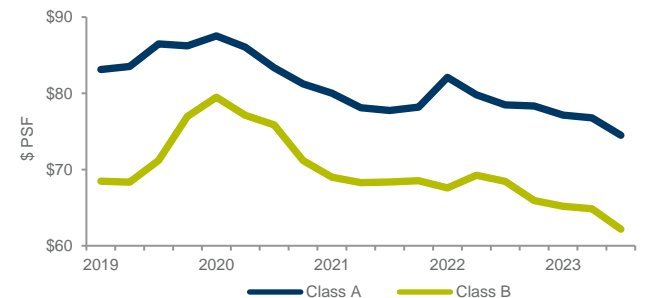
### Direct vs. Sublease Vacant Space Comparison



### Leasing Activity



### 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	1,300,269	6,774,874	30.5%	-835,914	-1,460,137	1,433,179	0	\$72.15	\$75.57
South Financial District	28,238,549	2,955,864	5,302,224	29.2%	-1,221,594	-2,792,412	1,082,652	0	\$72.05	\$72.85
<b>CBD TOTALS</b>	<b>54,713,338</b>	<b>4,256,133</b>	<b>12,077,098</b>	<b>29.9%</b>	<b>-2,057,508</b>	<b>-4,252,549</b>	<b>2,515,831</b>	<b>0</b>	<b>\$72.10</b>	<b>\$73.86</b>
Jackson Square	2,044,625	85,580	415,936	24.5%	-9,138	79,679	128,944	0	\$62.66	\$75.62
Mid-Market	4,631,437	688,877	778,264	31.7%	-149,994	-331,226	91,292	0	\$60.87	\$68.95
Mission Bay	1,987,440	284,212	0	14.3%	300,000	108,247	248,989	0	\$87.59	\$87.59
North Waterfront	3,352,964	262,561	747,151	30.1%	-116,761	-159,740	14,002	0	\$71.44	\$73.30
Showplace Square/Potrero Hill	4,009,521	690,193	548,176	30.9%	-12,533	-98,394	127,776	0	\$62.79	\$64.77
SoMa	9,099,134	1,074,071	3,055,966	45.4%	-127,387	-738,933	11,956	51,409	\$71.55	\$78.83
The Presidio	1,030,627	46,071	34,929	7.9%	-19,836	-66,385	103,467	0	\$115.38	\$123.92
Third Street Corridor	406,482	0	0	0.0%	0	70,000	264,910	0	N/A	N/A
Union Square	3,296,802	104,844	691,397	24.2%	-34,271	45,993	53,971	0	\$64.01	\$77.44
Van Ness Corridor	728,356	0	104,879	14.4%	0	-6,610	6,620	0	\$45.29	\$47.42
<b>NON-CBD TOTALS</b>	<b>30,587,388</b>	<b>3,236,409</b>	<b>6,376,698</b>	<b>31.4%</b>	<b>-169,920</b>	<b>-1,097,369</b>	<b>1,051,927</b>	<b>51,409</b>	<b>\$68.58</b>	<b>\$76.06</b>
<b>SAN FRANCISCO TOTALS</b>	<b>85,300,726</b>	<b>7,492,542</b>	<b>18,453,796</b>	<b>30.4%</b>	<b>-2,227,428</b>	<b>-5,349,918</b>	<b>3,567,758</b>	<b>51,409</b>	<b>\$70.86</b>	<b>\$74.50</b>

\*Rental rates reflect full service asking

\*Renewals included in leasing statistics as of Q2 2023

## KEY LEASE TRANSACTIONS Q3 2023

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
795 Folsom Street	SoMa	Quantcast	63,278	Renewal/Downsize
300 Mission Street	South Financial	SF Health Plan	57,600	Renewal
460 Bryant Street	SoMa	Hayden AI	41,976	Sublease
650 California Street	North Financial	Ironclad	35,903	Sublease
350 Rhode Island	Showplace Square/Potrero Hill	Adept AI	35,684	Sublease
680 Folsom Street	South Financial	Yahoo	35,385	Sublease

## KEY SALE TRANSACTIONS Q3 2023

PROPERTY	SUBMARKET	SELLER/BUYER	SF	PRICE/\$ PSF
550 California Street	North Financial	Wells Fargo Bank/Peninsula Land & Capital	355,412	\$40.5M/\$114
350 California Street	North Financial	Mitsubishi UFJ Financial Group/The Swig Company	297,292	\$61M/\$205
60 Spear Street	South Financial	Clarion Partners/Presidio Bay Ventures	157,436	\$41M/\$260

## KEY CONSTRUCTION COMPLETIONS Q3 2023

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER/DEVELOPER
Mission Rock (Building G)	Mission Bay	Visa	300,000	Tishman Speyer



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**About Cushman & Wakefield**

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