

Office Q4 2023

32.5%
Vacancy Rate



-2.7M
Net Absorption, SF



\$69.87
Asking Rent, PSF



(Overall, All Property Classes)

ECONOMIC INDICATORS Q4 2023

1.21M
San Francisco Metro
Employment



3.1%
San Francisco Metro
Unemployment Rate



3.7%
U.S.
Unemployment Rate



Source: BLS, Moody's Analytics
2023Q4 data are based on the latest available data

ECONOMY: Start-Ups Drive San Francisco Economy

In the fourth quarter, San Francisco's office market remains uncertain, yet a glimmer of optimism emerged with several large tenants making commitments to stay or expand in San Francisco. Employment in the San Francisco metro division expanded by 9,683 new jobs year-over-year (YOY) for a growth rate of 0.8%. Office jobs, despite numerous announced layoffs this year, remain above the pre-pandemic peak by 6.1% at 522,900 positions for the San Francisco metro division. Meanwhile, the unemployment rate rose 70 basis points (bps) YOY with the most recent figure at 3.1%. Venture capital (VC) funding into start-ups is a significant driver of the San Francisco economy. Capital invested into San Francisco based companies climbed higher in the fourth quarter to \$8.1 billion, up 8.2% from the third quarter. Throughout the entire year, VC funding reached \$34.5B, marking a 3.5% increase from the 2022 figure, yet both figures fall short when compared to the record \$58.2 billion in 2021. The most important driver in VC funding continued to be the generative AI vertical, with San Francisco proper absorbing 67% of the global funding in 2023.

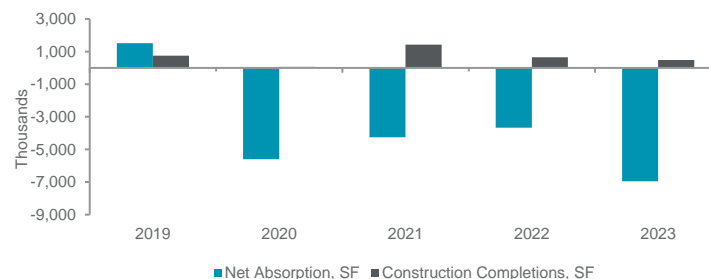
SUPPLY: Sublease Availability Continues to Rise

The citywide overall vacancy rate at the end of the fourth quarter of 2023 was 32.5%, up 310 bps from 29.4% in the third quarter and up 840 bps from 24.1% one year ago. Direct vacancy climbed to a new high at 20.6 million square feet (msf), up from 18.3 msf in the third quarter. San Francisco sublease vacancy increased to 7.3 msf, up 5.8% from 6.9 msf in the third quarter and an increase from the 5.3 msf one year ago. In the fourth quarter, 1.0 msf of available sublease space came on the market, a 51% increase from the third quarter. Amongst these new spaces were listings from tech companies such as Microsoft and Adobe, which accumulated to a total of over 335,000 sf. Despite the rise in the number of subleases signed during the second half of this year, that activity could not outpace new spaces hitting the market. The largest sublease block on the market is Meta's 395,412 sf space at 181 Fremont Street, which became vacant in the previous quarter. The largest direct block on the market is 685,078 sf at 50 Fremont Street, with a mix of current and future occupancy.

PRICING: Rental Rates Remain Strong in Differentiated Product

The overall average asking rent for San Francisco closed out the fourth quarter at \$69.87 per square foot (psf) on an annual gross basis, down 2.2% from the third quarter. The Class A Central Business District (CBD) overall asking rent closed the fourth quarter at \$72.86 psf, down 2.5% from the third quarter, and down 6.5% from one year ago. The overall asking rent for the Class A Tier 1 (trophy) CBD buildings closed at \$104.59 psf, a 5.7% increase from \$98.91 psf in the third quarter. 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. This is evident by the \$81.51 psf direct average asking rent for Class A non-CBD spaces, compared to \$75.80 psf for Class A CBD direct.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



SAN FRANCISCO



Office Q4 2023

CONSTRUCTION: One Delivery Closes out the Quarter

The fourth quarter of 2023 brought the completion of 531 Bryant Street, a mixed-use building including 50,000 sf of Class B office space and 1,265 sf of retail space. The building, ready for tenant occupancy, has had no pre-leasing. There are currently no office developments under construction. Proposed and entitled office projects total just over 17.7 msf, with the majority of it either in Central SoMa or along the Third Street Corridor.

DEMAND: Class A Product Dominates Leasing

Total leasing activity (new leases and renewals) citywide for the fourth quarter was at 1.7 msf, up from 1.3 msf in the third quarter of 2023. This surge in new leasing activity marks the largest quarter since Q2 2022. Leasing was skewed heavily towards Class A product at 1.4 msf or 83.9%. This trend can be attributed to the trifurcated market with tenants seeking high-quality and differentiated spaces. The CBD market was in control regarding overall (all classes) leasing, with 964,091 sf or 56.3% of total activity. Although the CBD took most of the leasing activity, its dominance continued to decrease in the fourth quarter. The surge of technology startups has positioned creative non-CBD buildings into valid competitors against the usually popular CBD submarkets. Hence, four of the top 10 leases occurred in non-CBD markets, with the largest lease of the quarter awarded to OpenAI in Mission Bay, securing a section of Uber's headquarters. Partly due to the rise in AI leases, subleases dominated this quarter, accounting for 67.6% of new leases (excluding renewals).

At the end of the fourth quarter there were 235 active requirements totaling 5.0 msf. Tenants in the market decreased by 5.8% from 5.3 msf in the third quarter, demand remained 31.9% below the 7.4 msf recorded just prior to the pandemic in early March 2020. The decrease in active requirement size can be credited to larger tenants in the market converting tour activity to leases this quarter. However, smaller requirements in the 5k-15k sf range continued to rise, with a 13.4% increase quarter-over-quarter (QOQ).

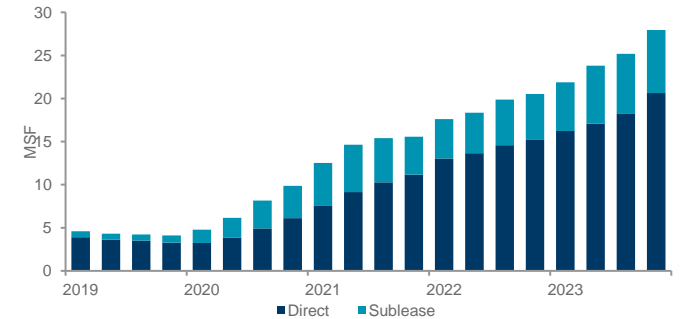
SALES: Sales Activity on the Rise

There were five transactions recorded in San Francisco in the fourth quarter of 2023, closing for a total of \$255.2 million (M). The sales included North Park (\$82.0M), 180 Howard Street (\$54.0M), 123 Townsend Street (\$73.0M), 115 Sansome Street (\$35.0M), and 1100 Sansome Street (\$11.2M). All sales closed at significant discounts from prior evaluations, reflecting the current condition of the San Francisco office investment market. Anticipate a higher turnover of buildings in 2024 due to declining property values, placing more owners in distressed situations.

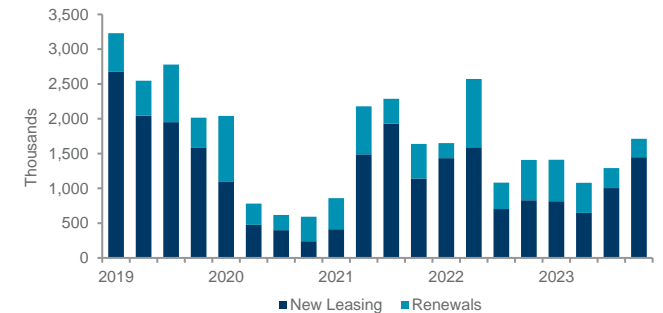
OUTLOOK

- The increase in sales during the second half of 2023 helped set a baseline for the San Francisco office investment market, and those discounted pricing trends will likely continue into 2024.
- Rents are anticipated to move downward throughout 2024, given the prevailing tenant-friendly market conditions.
- Leasing heavily favored Class A buildings, posing a risk of obsolescence for commodity spaces suffering from reduced tenant demand; this will likely continue throughout the new year.

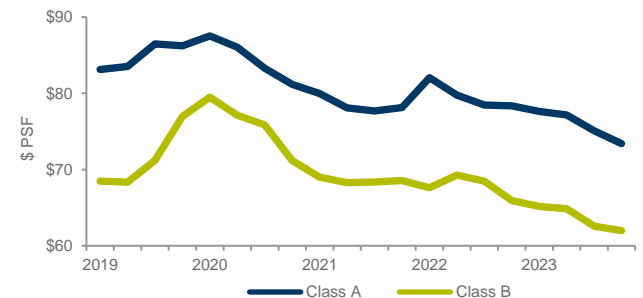
Direct vs. Sublease Vacant Space Comparison



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	26,866,662	1,253,482	7,605,294	33.0%	-1,070,884	-2,204,511	1,957,037	0	\$70.14	\$73.73
South Financial District	28,238,549	2,775,156	5,698,305	30.0%	-143,014	-2,698,595	1,665,760	0	\$71.70	\$72.11
CBD TOTALS	55,105,211	4,028,638	13,303,599	31.5%	-1,213,898	-4,903,106	3,622,797	0	\$70.90	\$72.86
Jackson Square	2,044,625	62,937	404,294	22.9%	24,497	113,964	188,513	0	\$61.92	\$75.52
Mid-Market	4,761,055	879,284	1,403,395	47.9%	-868,897	-1,143,037	72,682	0	\$63.36	\$69.39
Mission Bay	2,051,060	34,459	20,043	2.7%	-20,043	337,957	751,510	0	\$83.00	\$83.00
North Waterfront	3,352,964	232,046	876,348	33.1%	-191,075	-258,422	137,158	0	\$70.15	\$69.91
Showplace Square/Potrero Hill	4,009,521	861,571	655,862	37.8%	-279,064	-377,458	152,609	0	\$64.41	\$66.34
SoMa	9,183,543	997,253	3,201,951	45.7%	-118,044	-756,691	359,715	0	\$71.18	\$78.51
The Presidio	1,030,627	48,533	48,981	9.5%	-23,256	-82,899	29,239	0	\$111.96	\$119.52
Third Street Corridor	406,482	0	0	0.0%	0	70,000	6,620	0	N/A	N/A
Union Square	3,296,802	156,796	634,145	24.0%	-30,233	48,397	159,647	0	\$63.36	\$77.88
Van Ness Corridor	728,356	2,438	96,457	13.6%	5,984	-626	13,490	0	\$41.17	\$46.98
NON-CBD TOTALS	30,865,035	3,275,317	7,341,476	34.4%	-1,500,131	-2,048,815	1,871,183	0	\$67.92	\$74.83
SAN FRANCISCO TOTALS	85,970,246	7,303,955	20,645,075	32.5%	-2,714,029	-6,951,921	5,493,980	0	\$69.87	\$73.40

*Rental rates reflect full service asking

*Renewals included in leasing statistics as of Q2 2023

KEY LEASE TRANSACTIONS Q4 2023

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
1515 3 rd Street	Mission Bay	OpenAI	486,600	Sublease
500 Howard Street	South Financial	Anthropic	230,325	Sublease
One Sansome Street	North Financial	HUD	55,732	Renewal
222 Second Street	South Financial	First Citizens Bank	50,808	Sublease
600 Townsend Street	Showplace Square/Potrero Hill	Patreon	41,403	Sublease/Renewal
650 California Street	North Financial	Debevoise & Plimpton	39,516	Renewal/Expansion

KEY SALE TRANSACTIONS Q4 2023

PROPERTY	SUBMARKET	SELLER/BUYER	SF	PRICE/\$ PSF
North Park	Jackson Square	Blackstone/GAW Capital Advisors	293,347	\$82M/\$280
180-182 Howard Street	South Financial	The State Bar of California/Ridge Capital Investors	243,418	\$54M/\$222
123 Townsend Street	SoMa	CBRE Investment Management/Rubicon Point Partners	136,950	\$72M/\$526

KEY CONSTRUCTION COMPLETIONS Q4 2023

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER/DEVELOPER
531 Bryant Street	SoMa	n/a	51,409	Urban Land Development

OFFICE SUBMARKETS

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