

MARKET FUNDAMENTALS

	YOY Chg	12-Month Forecast
34.9% Vacancy Rate	▲	▬
-2.2M YTD Net Absorption, SF	▼	▼
\$67.79 Asking Rent, PSF <i>(Overall, All Property Classes)</i>	▼	▼

ECONOMIC INDICATORS

	YOY Chg	12-Month Forecast
1.2M San Francisco Metro Employment	▲	▲
3.4% San Francisco Metro Unemployment Rate	▬	▼
4.1% U.S. Unemployment Rate	▲	▼

Source: BLS

ECONOMY: Venture Capital Fuels San Francisco Economy

In the third quarter of 2024, San Francisco's commercial real estate market faced ongoing challenges as it sought to stabilize. However, Venture Capital (VC) funding emerged as a notable bright spot amidst these difficulties. A prime example is OpenAI's \$6.6 billion funding round, which occurred just after the close of the quarter and will substantially boost San Francisco's year-end total. VC funding for start-up companies headquartered in San Francisco totaled \$4.8 billion (B) in the third quarter, down from \$11.2B in the previous quarter, which was boosted by three deals exceeding \$1B in artificial intelligence (AI) operations. Year-to-date (YTD), VC funding for San Francisco-based companies reached \$21.3B, the highest of any single market in the Americas. During the same period, generative AI funding for the market accounted for 31% of the global total.

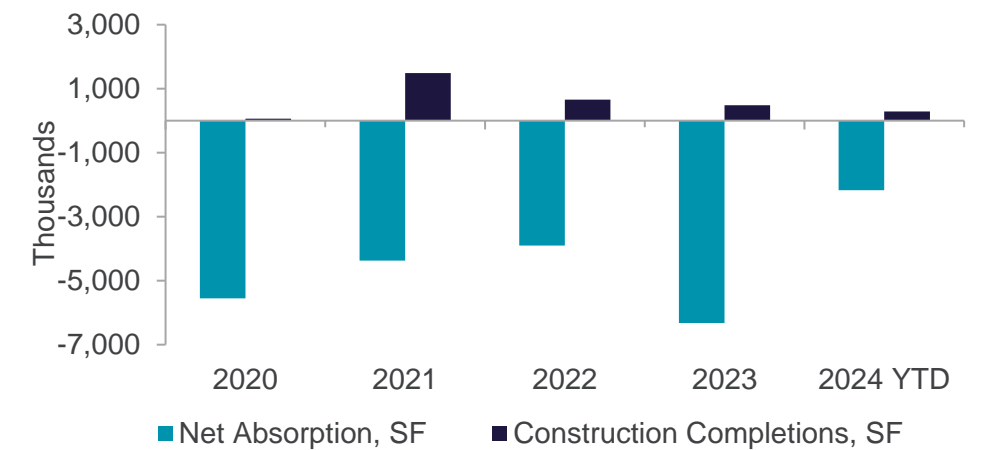
SUPPLY: Sublease Vacancy Rates Remain Steady

The overall vacancy rate at the end of the third quarter of 2024 was 34.9%, marking an increase of 140 basis points (bps) from the previous quarter and a sharp 550 bps increase from the rate of 29.4% one year ago. Direct vacancy rose to 22.9 million square feet (msf), up from 21.6 msf in the prior quarter, while sublease vacancy remained virtually the same at 7.2 msf. The current market availability (all space being marketed whether vacant or still occupied) closed the quarter at 37.6%. This indicates a likely further rise in vacancy rates, but it also suggests that the market may stabilize by the end of this year or early 2025. Leading the sublease availability is Uber's 323,403 square foot (sf) space at 1455 Market Street, which expires in the beginning of 2025. The largest direct block available is 601,828 sf at 50 Fremont Street.

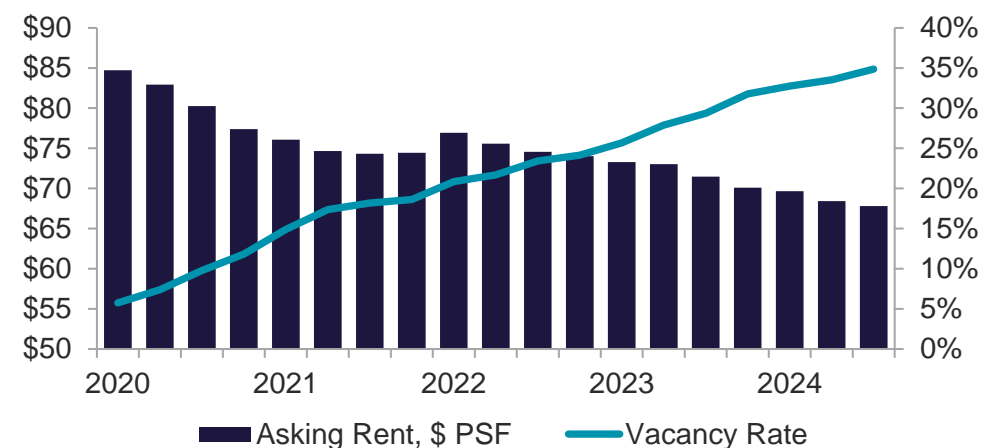
PRICING: Pricing Increases In Trophy Product

The overall average asking rent for San Francisco closed out the third quarter at \$67.79 per square foot (psf) on an annual gross basis, a small decrease from the \$68.41 in the second quarter of 2024. The overall asking rent for Class A properties in the CBD remained steady, closing the third quarter at \$73.04 psf. With a direct vacancy rate of just 8.2% in Class A Tier 1 (trophy) buildings in the CBD, asking rents for these assets have remained elevated and near its pre-pandemic high of \$112.61 psf, climbing 2.6% during the third quarter to close at \$111.53 psf.

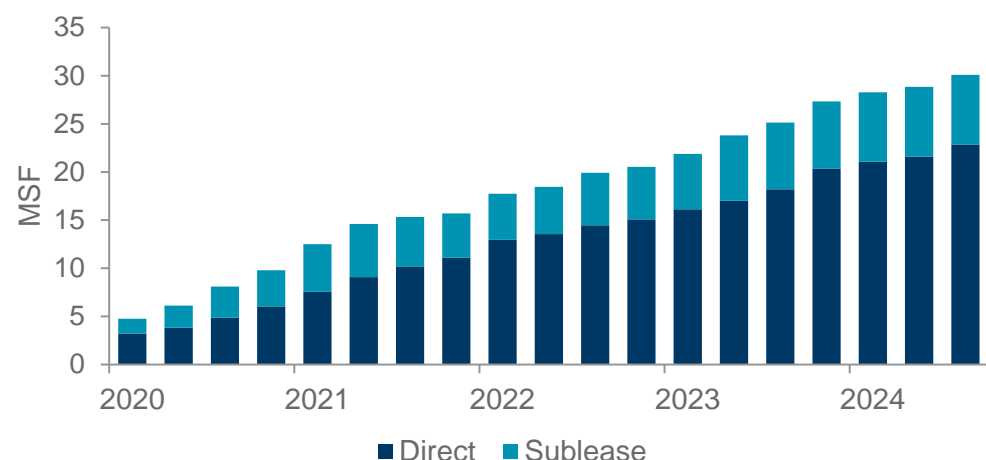
SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



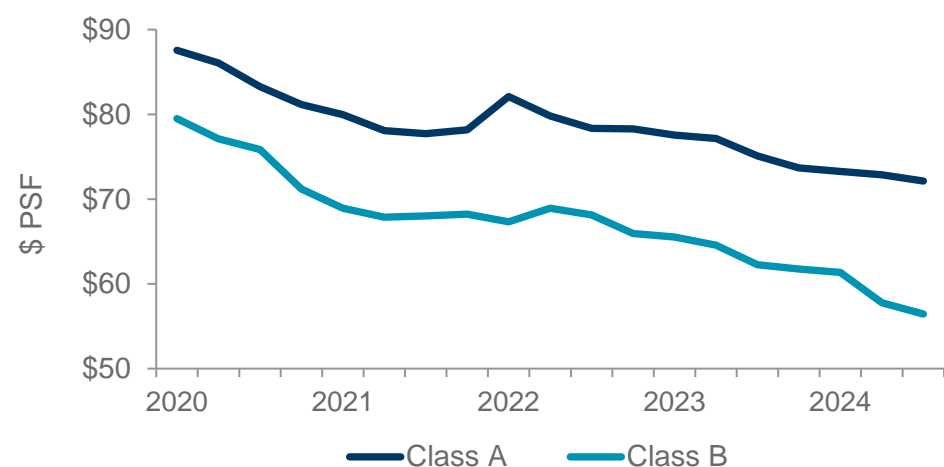
DIRECT VS. SUBLEASE VACANT SPACE COMPARISON



LEASING ACTIVITY



OVERALL ASKING RENT COMPARISON



DEMAND: Tenant Demand Increases

During the third quarter, the citywide total leasing activity (new leases and renewals) amounted to 1.7 msf, this marks a decrease from the 2.7 msf recorded in the second quarter of 2024. Leasing activity skewed heavily towards Class A product, accounting for 1.5 msf or 87.2% of the total. Renewals comprised 19.6% of overall leasing activity this quarter, reflecting a growing trend in early renewals as tenants seek to remodel their spaces, driven largely by the significant impact of construction costs. The CBD market continued to dominate overall leasing activity, accounting for 1.1 msf, or 62.8% of the total. Much of the activity in the CBD market was fueled by professional service firms right-sizing within the market. Meanwhile, leasing in Non-CBD markets has surged over the past year, as tech startups have begun to occupy vacant spaces previously left behind by other tech companies.

AI companies have been a key driver of leasing activity in the San Francisco market, and they continued to grow and expand. A notable example was OpenAI, which secured the largest lease of the quarter, taking 306,000 sf at 550 Terry Francois Blvd in Mission Bay. This space was previously occupied by Gap, which announced the relocation/consolidation of its Old Navy headquarters in early 2021.

There were 238 active requirements totaling 6.5 msf, with approximately 36.8% falling within the tech sector. The total square footage and tenant count in the market increased from the previous quarter, with the most significant demand surge occurring among tenants in the 5,000 to 10,000 square foot range. This quarter marked the highest level of tenant demand since the onset of the pandemic; however, it remained 12.8% below the 7.4 million square feet recorded in early March 2020.

SALES: increase in Investment Sales Anticipated

In the third quarter of 2024, there were five transactions recorded in San Francisco, closing for a total of \$179.3 million (M). The sales included 255 California Street (\$55.0M) in the North Financial District, 795 Folsom Street (\$48.3M) in SoMa, 631 Howard Street (\$39.0M) in the South Financial District, 99 Rhode Island Street (\$23.5M) in Showplace Square/Potrero Hill, and 989 Market Street (\$13.5M) in Mid-Market. All five transactions sold at a significant discount to their pre-pandemic values, with nearly all transactions this year occurring at prices below \$400 per square foot. Recent sales transactions have been in assets facing significant vacancies. As interest rates decline, anticipate a marked increase in investment sales activity or re-financing.

OUTLOOK

- Artificial intelligence companies will continue as a driving force in the San Francisco market, fueling significant VC funding and leasing activity, with over 700,000 square feet currently in demand.
- Sublease vacancy remained stable throughout the quarter, suggesting that companies looking to offload their space have likely already done so. The remaining vacancies will primarily come from direct lease expirations and tenants seeking to downsize their footprint within the market.
- Despite the high availability rate, the top of the market remains constrained, offering few options for tenants in search of updated spaces with views and buildings that have significant amenities and convenient retail access.

MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
North Financial District	26,866,062	1,172,933	8,091,614	34.5%	-176,992	-408,907	2,105,582	0	\$69.04	\$75.00
South Financial district	28,258,285	2,647,582	7,029,843	34.2%	-705,855	-1,424,999	1,630,818	0	\$71.07	\$71.54
CBD TOTALS	55,124,347	3,820,515	15,121,457	34.4%	-882,847	-1,833,906	3,736,400	0	\$70.07	\$73.04
Jackson Square	2,044,625	74,918	408,149	23.6%	-68,748	-24,762	76,753	0	\$61.67	\$75.03
Mid-Market	4,761,055	905,105	1,106,881	42.3%	6,249	170,909	352,848	0	\$50.58	\$53.36
Mission Bay	2,336,822	0	285,762	12.2%	35,481	344,952	360,502	0	\$138.00	\$138.00
North Waterfront	3,369,214	187,994	953,171	33.9%	29,166	-112,325	106,821	0	\$66.47	\$66.61
Showplace Square/Potrero Hill	4,016,405	1,107,877	663,874	44.1%	-94,318	-105,443	227,237	0	\$58.44	\$60.95
SoMa	9,197,211	999,843	3,327,252	47.0%	94,630	-363,577	391,108	0	\$68.31	\$75.10
The Presidio	1,030,627	21,919	27,707	4.8%	20,243	-8,810	87,508	0	\$116.90	\$116.90
Third Street Corridor	406,482	0	0	0.0%	0	0	0	0	\$0.00	\$0.00
Union Square	3,327,081	123,782	825,101	28.5%	-94,002	-201,798	221,195	0	\$55.34	\$64.51
Van Ness Corridor	728,356	1,000	136,395	18.9%	-1,502	-41,000	15,565	0	\$40.86	\$44.20
NON-CBD TOTALS	31,217,878	3,422,438	7,734,292	35.7%	-72,801	-341,854	1,839,537	0	\$64.10	\$70.34
SAN FRANCISCO TOTALS	86,342,225	7,242,953	22,855,749	34.9%	-955,648	-2,175,760	5,575,937	0	\$67.79	\$72.14

*Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q3 2024

PROPERTY	SUBMARKET	TENANT	SF	TYPE
550 Terry Francois Boulevard	Mission Bay	OpenAI	306,000	New Lease
505 Howard Street	South Financial District	KPMG	95,296	New Lease
500 Terry Francois Boulevard	Mission Bay	Cisco Meraki	54,502	New Lease / Expansion
One Letterman Drive – Building D	The Presidio	Dragoneer	48,000	Renewal / Expansion
505 Howard Street	South Financial District	Perkins Coie	45,451	Renewal / Downsize
560 Mission Street	South Financial District	Delta Dental	45,132	Renewal
181 Fremont Street	South Financial District	Strava	41,513	Sublease
235 Second Street	South Financial District	Sierra AI	41,104	New Lease

KEY SALE TRANSACTIONS Q3 2024

PROPERTY	SUBMARKET	SELLER/BUYER	SF	PRICE / \$ PSF
795 Folsom Street	SoMa	ASB Capital / Fountainhead Development	187,202	\$48.3M / \$258
255 California Street	North Financial District	Rockpoint / LBA Realty	182,528	\$55.0M / \$300
989 Market Street	Mid-Market	ASB Capital / BH Properties	117,000	\$13.5M / \$115
631 Howard Street	South Financial District	Invesco Advisers / Flynn Properties	108,786	\$39.0M / \$359
99 Rhode Island Street	Showplace Square/Potrero Hill	A10 Capital / Westwood US	63,780	\$23.5M / \$369

OFFICE SUBMARKETS



ANNA BREHM
Senior Research Analyst
Tel: +1 415 451 2427
anna.brehm@cushwake.com

KATE SU
Research Analyst
Tel: +1 415 268 1380
kate.su@cushwake.com

JASON KARBELK
Research Manager
Tel: +1 415 485 3742
jason.karbelk@cushwake.com

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