

MARKET TRENDS

SAN FRANCISCO OFFICE

MARKET DRIVERS

After another consecutive quarter of negative net absorption, the San Francisco Office market continues the trend of “flight to quality”. With many employees still cautious and/or reluctant to brave public transit or traffic (and the resulting financial and time costs), tenants must make difficult decisions in terms of their leases. Whether that’s finding premier Class A office space to incentivize staff to return to the office, “right-sizing” by subleasing some of their existing space to accommodate this new normal, or looking for shorter term leases to stay nimble, current and prospective tenants need to think ahead more than ever before. This uncertainty led to negative net absorption of 1,403,130 SF. Quarter-over-quarter the total net absorption grew from negative 849,824 SF, as San Francisco is still very much in recovery. Fortunately, year-to-date leasing activity is sitting at 4,611,783 SF, which already has surpassed 2020’s leasing activity of 3,733,856 SF.

Quarter to date leasing activity totals 736,051 SF, roughly a 65% decrease from this time last year (2,130,364 SF). Direct vacancy rose slightly quarter-over-quarter to 17.1%, but sublease vacancy increased by 60 basis points (bps) to 5%. While this only slightly raised San Francisco’s vacancy rate to 22.1%. Most of the vacancies are in Class B and C buildings, which are reporting a direct vacancy rate of 18.2% and 18.7% respectively. The direct vacancy rate for Class A is only 16.1%, supporting the continuing trend of flight to quality. Throughout the market, Class A buildings are reporting an average direct asking lease rate of \$68.46 per square foot full service and Class B buildings are reporting \$54.53 per square foot full service.

There is 1,155,503 SF of office space currently under construction. The largest project is Mission Rock building B, consisting of 313,952 SF slated for delivery in Q4 2022. Due to continuing supply chain issues and rising inflation, construction costs have increased, delaying projects even further.

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MARKET SUMMARY

	3Q22	2Q22	3Q21	Annual Change
New Construction	300,000	23,764	126,537	137.1%
Under Construction	1,155,503	819,920	1,072,446	7.7%
Direct Vacancy Rate	17.1%	16.4%	13.3%	28.6%
Sublease Vacancy Rate	5.0%	4.4%	4.7%	6.4%
Overall Vacancy Rate	22.1%	20.7%	18.0%	22.8%
Direct Lease Rate (A&B)	\$63.04	\$63.55	\$66.87	-5.7%
Leased SF	736,051	2,327,540	2,130,364	-65.4%
Sold SF	155,252	434,087	2,433,320	-93.6%
Total Net Absorption	(1,403,130)	(849,824)	73,087	N/A

3Q 2022

↓ **736K SF**
LEASING ACTIVITY

↓ **-1.4M SF**
NET ABSORPTION

↑ **22.1%**
VACANCY RATE

↓ **\$63.04**
ASKING RENT (AVG)

↑ **300K SF**
NEW DELIVERIES

Year-Over-Year Trend

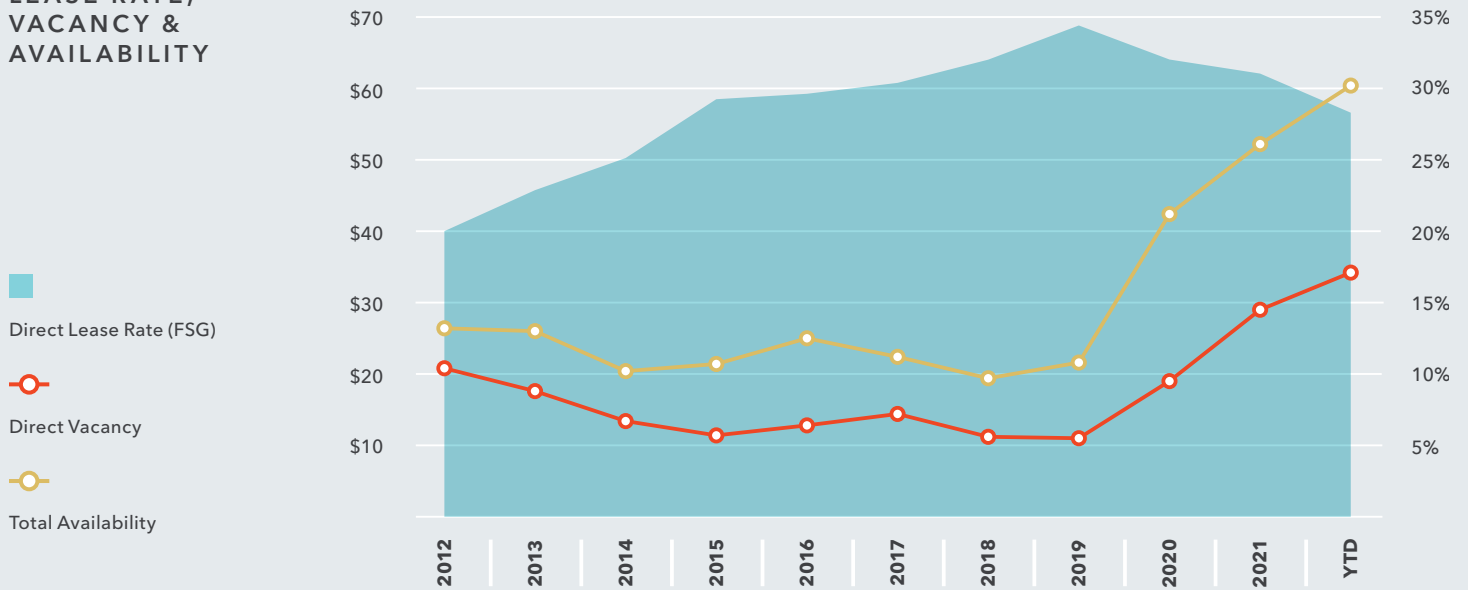
MARKET HIGHLIGHTS

Flight to quality continues, generating consistent demand for premier Class A office spaces.

San Francisco continues to boast a low unemployment rate of 2.1%.

Direct office vacancy rose slightly to 17.1%

LEASE RATE, VACANCY & AVAILABILITY

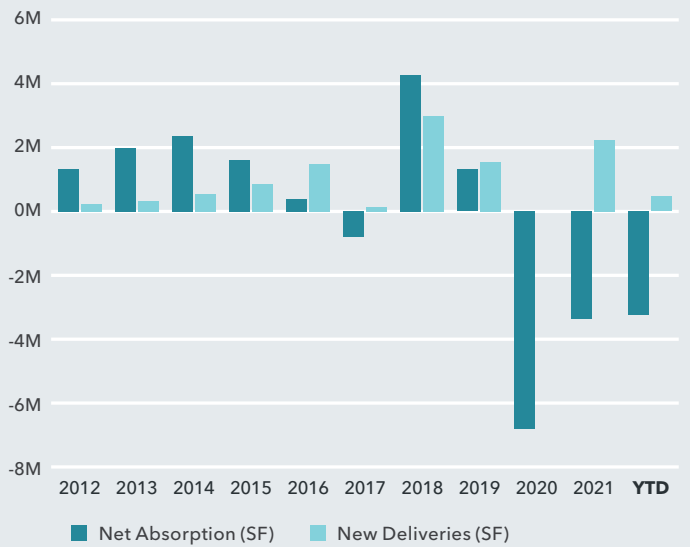


BIGGEST SALE OF THE QUARTER

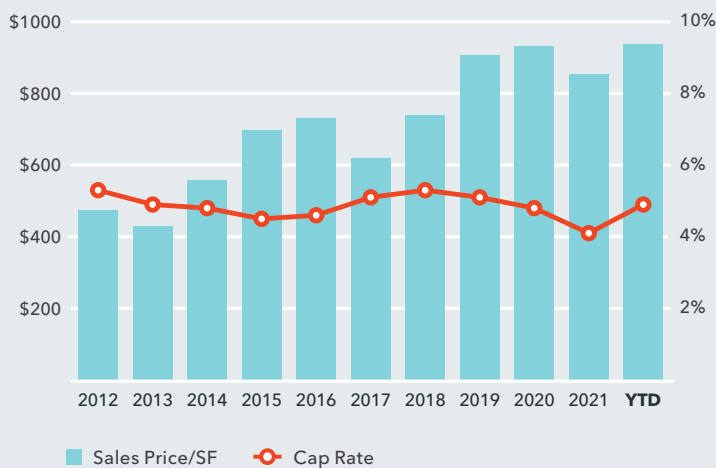
*300 Grant Avenue
San Francisco*



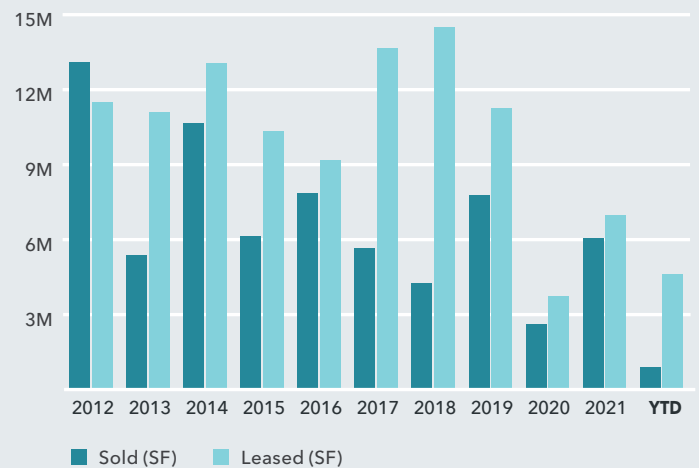
NET ABSORPTION & NEW DELIVERIES



AVERAGE SALES PRICE/SF & CAP RATE



SALE VOLUME & LEASING ACTIVITY



SUBMARKET STATISTICS

Submarket	Total Inventory	Under Construction	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	Total Available Rate	3Q22 Direct Net Absorption	YTD Direct Net Absorption	3Q22 Total Leasing Activity	YTD Leasing Activity	Average Rental Rate (FS)
Civic Center	616,967	0	24.1%	0.0%	24.1%	26.9%	5,957	-14,289	5,158	12,530	\$41.81
Financial District	26,550,422	0	20.8%	4.0%	24.9%	31.4%	-395,403	-1,359,771	283,595	1,163,804	\$61.14
Jackson Square	2,343,505	0	18.6%	2.2%	20.8%	25.7%	44,584	-4,765	675	163,041	\$60.21
Mid Market	4,520,249	235,071	17.5%	4.9%	22.4%	41.3%	-58,382	-261,745	9,691	85,852	\$30.56
Mission Bay/China Basin	5,414,896	526,748	3.9%	8.7%	12.6%	26.8%	29,742	-33,406	10,273	77,234	\$39.00
Mission/Potrero	3,329,849	0	21.6%	1.7%	23.3%	26.3%	-11,519	235,105	24,770	134,303	\$50.00
Rincon/South Beach	5,828,480	0	12.3%	7.3%	19.6%	32.5%	-107,068	-76,385	32,267	200,704	\$49.03
Showplace Square	3,633,645	101,782	6.4%	15.8%	22.2%	47.1%	-169,830	-303,512	4,309	14,322	\$43.05
South Financial District	29,816,436	0	12.8%	4.9%	17.8%	25.1%	-891,022	-1,166,792	253,412	1,871,088	\$60.50
SOMA	5,716,998	291,902	21.5%	2.1%	23.6%	25.4%	127,093	146,771	28,013	501,252	\$65.62
Union Square	4,424,656	0	20.4%	3.2%	23.6%	30.5%	96,430	-96,682	30,100	191,369	\$50.36
Van Ness Corridor/Chinatown	1,335,473	0	15.7%	0.8%	16.5%	30.3%	-9,027	-10,647	19,254	108,753	\$53.10
Waterfront/North Beach	3,924,316	0	20.7%	3.8%	24.5%	34.2%	-86,334	-173,415	14,245	35,362	\$25.33
Yerba Buena	3,944,507	0	35.8%	7.9%	43.6%	53.5%	21,649	-106,505	20,289	52,169	\$57.67
San Francisco Totals	101,400,399	1,155,503	17.1%	5.0%	22.1%	30.6%	-1,403,130	-3,226,038	736,051	4,611,783	\$56.60
Class A	56,082,044	887,365	16.1%	4.9%	21.0%	28.3%	-1,007,481	-2,434,196	485,704	3,194,222	\$68.46
Class B	37,797,483	268,138	18.2%	5.6%	23.8%	34.1%	-314,214	-629,559	207,682	1,096,108	\$54.53
Class C	7,520,872	0	18.7%	3.0%	21.7%	31.0%	-81,435	-162,283	42,665	321,453	\$37.55

ECONOMIC REVIEW

This July, San Francisco's unemployment rate dropped to 2.1%, only 10 bps lower than what was reported in April. Despite recession concerns, the labor market remains incredibly strong.

Throughout 2022, inflation has been on the rise leading to several interest rate hikes. Most recently, the Federal Reserve approved its third consecutive 75 bps interest rate increase to combat inflation. The rise in inflation continues to strain the supply chain causing the cost of raw materials used in construction to increase, further delaying delivery times and tenant improvement projects.

NEAR-TERM OUTLOOK

San Francisco remains in recovery two and a half years after the start of the pandemic but continues to show signs of growth throughout 2022. Kastle Systems, a company that tracks occupancy for buildings, reported in mid-September that the San Francisco metro has a weekly occupancy rate of 40.7%, up 2.3% from the previous week. In early June, Kastle reported only 34% for the San Francisco metro. While leasing activity is not at the heights of the pre-COVID era, San Francisco is on track to surpass or at least maintain a similar level of activity as 2021. Throughout 2022 San Francisco has seen some of the largest lease transactions the City has had since March 2020, including Wells Fargo's renewal of 622,437 SF at 333 Market St. On the other hand, in July, Salesforce put roughly 350,000 SF of office space on the market at 50 Fremont (a building the company owns) for lease, so the near-term outlook remains mixed.

TOP SALE TRANSACTIONS 3Q 2022

Property	Submarket	SF	Sale Price	\$/SF	Buyer	Seller
300 Grant Ave	Union Square	71,832	\$155,000,000	\$2,157.81	Hanwha Life Insurance Co.	Artha Capital
1076 Howard St	South Of Market	16,668	\$17,535,000	\$1,052.02	AER Worldwide	Vantage Property Investors
414 Brannan St	South Of Market	13,696	\$12,050,000	\$879.82	Epic Church San Francisco	Aldo P Lera Exempt Trust

TOP LEASE TRANSACTIONS 3Q 2022

Property	Submarket	SF	Transaction Date	Landlord	Tenant
680 Folsom St	South Financial District	70,770	Jul 2022	Boston Properties Inc.	Asana
1 Bush St	Financial District	34,088	Jul 2022	Tishman Speyer	Farella Braun + Martel LLP
88 Kearny St	Financial District	20,597	Jul 2022	Nuveen	Audacy

TOP UNDER CONSTRUCTION

Property	Address	Submarket	SF	Owner	Delivery
Mission Rock (Bldg B)	1051 3rd St	Mission Bay/China Basin	313,952	Port of San Francisco	Q4 2022
30 Van Ness Ave	30 Van Ness Ave	MidMarket	235,071	LendLease US Services Inc.	Q4 2024
1035 Howard St	1035 Howard St	South Of Market	93,138	Embarcadero Capital Partners	Q1 2023

Data Source: CoStar, U.S Bureau of Labor Statistics, Kastle Systems



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COMMERCIAL
BROKERAGE

\$10.9B

TRANSACTION
VOLUME ANNUALLY

49.7M

ANNUAL
SALES SF

43.7M

ANNUAL
LEASING SFASSET
SERVICES

52M

MANAGEMENT
PORTFOLIO SF

875+

ASSETS UNDER
MANAGEMENT

270+

ASSET SERVICES
CLIENTSVALUATION
ADVISORY

2,600+

ASSIGNMENTS
ANNUALLY

47

TOTAL
APPRAISERS

24

WITH MAI
DESIGNATIONS

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