

MARKET TRENDS

SAN FRANCISCO OFFICE

MARKET DRIVERS

NET ABSORPTION was negative for the fifth consecutive quarter as the San Francisco office market continued its flight to quality trend as concerns grow from an impending recession and an uncertain economic outlook in 2023. Many tenants need to navigate economic uncertainty, coupled with the current work-from-home trends, whether that's finding premier Class A space to incentivize staff to return to the office, "right-sizing" by subleasing existing space to accommodate their current (smaller) workforce, or looking for shorter term leases or subleases to stay nimble. This uncertainty led to negative net absorption in Q4 of 1,284,611 SF. Quarter-over-quarter, total net absorption fell from negative 1,717,364 SF, however total net absorption in 2022 totaled roughly negative 5 million SF, compared to the negative 3.16 million SF reported in 2021.

LEASING ACTIVITY totaled 898,920 SF in 4Q 2022, a 59% decrease from this time last year (2,206,001 SF). Direct vacancy continued to grow, reporting 18.4%, an increase of 100 basis points (bps) quarter-over-quarter. Sublease vacancy also increased by 30 bps quarter-over-quarter and 100 bps year-over-year to 5.3%. Class B and C offices are reporting direct vacancy rates of 19.5% and 19.7%, respectively. The direct vacancy rate for Class A is a touch lower, at 17.4%. Class A and B offices in the Financial District have an average direct asking lease rate of \$60.93 PSF full service, dropping by 8.2% year-over-year. Looking at all submarkets throughout the City, offices are reporting an average direct asking lease rate of \$54.99 PSF full service.

UNDER CONSTRUCTION office space currently totals 1,369,668 SF. The largest project is Mission Rock Buildings B and G, totaling of 613,952 SF, slated for delivery in mid-2023. Building G is pre-leased to Visa.

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Market Summary

	4Q22	3Q22	4Q21	Annual Change
New Construction	23,764	0	921,900	(97.4%)
Under Construction	1,369,668	1,393,432	892,511	53.5%
Direct Vacancy Rate	18.4%	17.4%	14.4%	27.8%
Sublease Vacancy Rate	5.3%	5.0%	4.3%	23.3%
Overall Vacancy Rate	23.7%	22.4%	18.7%	26.7%
FIDI Direct Lease Rate (A&B)	\$60.93	\$62.96	\$66.34	(8.2%)
Leased SF	898,920	871,545	2,206,001	(59.3%)
Sold SF	46,211	158,146	2,510,451	(98.2%)
Total Net Absorption	(1,284,611)	(1,717,364)	(64,014)	N/A

↓ 899K SF
LEASING ACTIVITY

↓ -1.3M SF
NET ABSORPTION

↑ 23.7%
VACANCY RATE

↓ \$60.93
ASKING RENT (AVG)

↓ 24K SF
NEW DELIVERIES

Year-Over-Year Trend

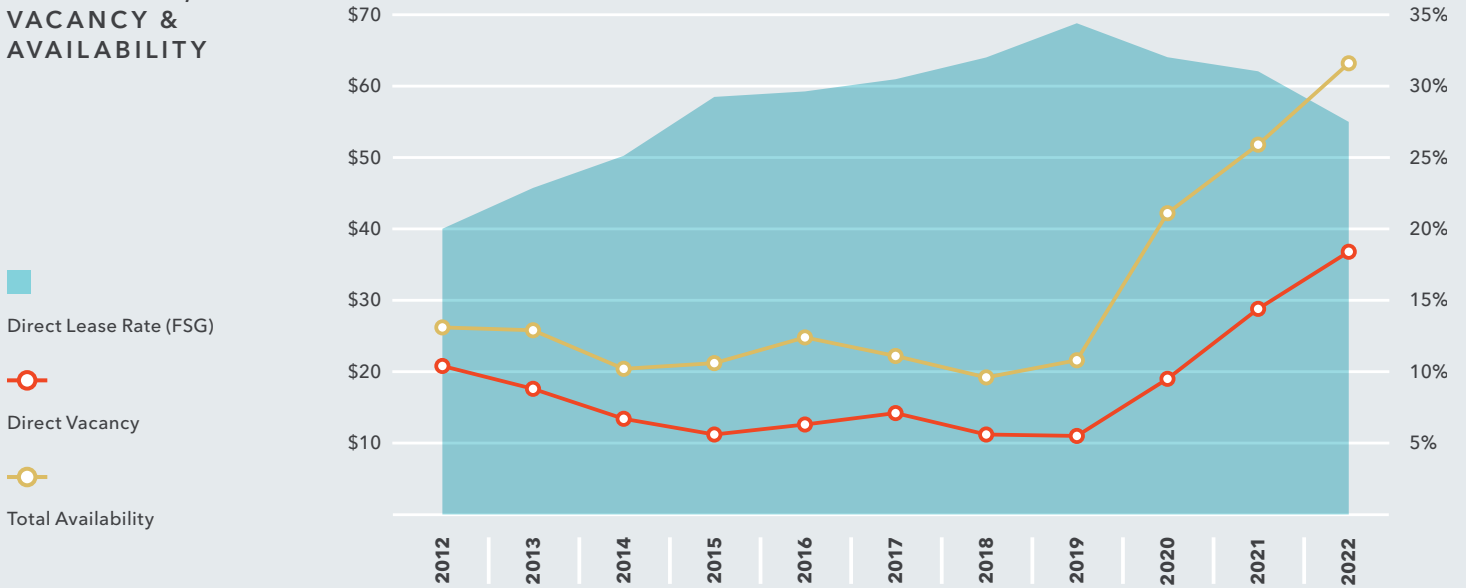
Market Highlights

FLIGHT TO QUALITY continues, generating consistent demand for premier Class A office space

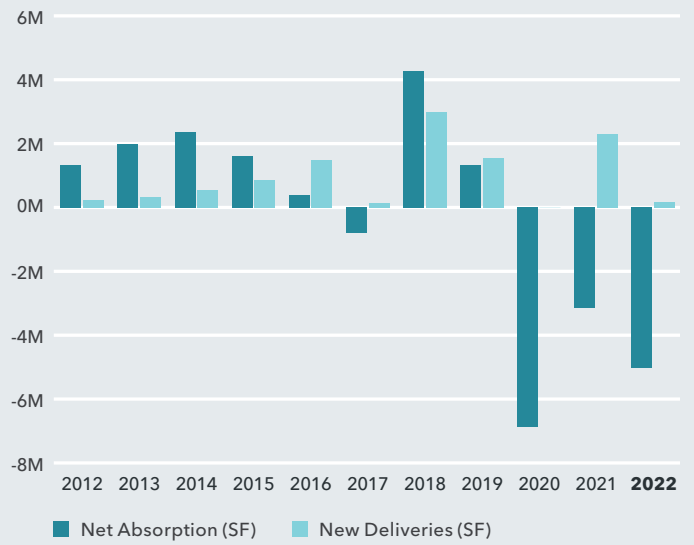
UNEMPLOYMENT RATE remains low at 2.2%

DIRECT OFFICE VACANCY rose to 18.4%

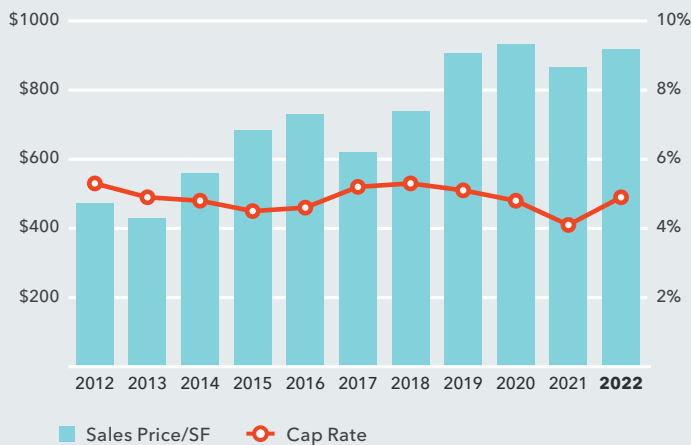
LEASE RATE, VACANCY & AVAILABILITY



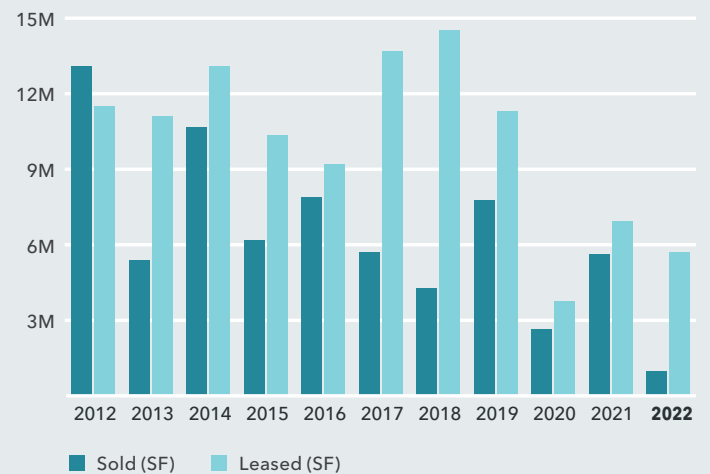
NET ABSORPTION & NEW DELIVERIES



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 Availability Rate	4Q22 Total Net Absorption	YTD Total Net Absorption	4Q22 Leasing Activity	YTD Leasing Activity	Average Rental Rate (FS)
Civic Center	616,967	0	25.6%	0.0%	25.6%	29.0%	(9,808)	(22,134)	2,064	14,594	\$40.77
Financial District	26,634,134	0	22.1%	4.4%	26.5%	32.8%	(299,426)	(1,841,744)	374,556	1,540,639	\$60.03
Jackson Square	2,358,355	0	18.3%	2.2%	20.5%	23.7%	(16,487)	(21,253)	45,710	215,750	\$58.02
Mid Market	4,793,278	235,071	16.5%	4.6%	21.1%	39.1%	(4,538)	(261,858)	24,767	110,619	\$30.56
Mission Bay/China Basin	5,414,896	826,748	9.0%	9.5%	18.5%	31.1%	(317,646)	(351,052)	12,827	90,061	\$39.00
Mission/Potrero	3,344,329	0	22.9%	2.8%	25.7%	30.9%	(90,046)	129,759	21,752	189,756	\$50.00
Rincon/South Beach	5,967,654	0	12.8%	9.5%	22.3%	36.9%	(113,989)	(265,101)	5,122	277,596	\$50.00
Showplace Square	3,631,950	101,782	8.6%	16.3%	24.9%	46.4%	(33,201)	(336,713)	0	14,322	\$43.05
South Financial District	29,807,587	0	13.2%	5.0%	18.1%	25.7%	(141,905)	(1,326,822)	330,333	2,258,939	\$57.36
SOMA	5,744,956	206,067	25.0%	3.2%	28.2%	31.9%	(87,320)	(148,396)	20,618	525,907	\$60.54
Union Square	4,496,488	0	23.5%	2.7%	26.2%	31.2%	(76,043)	(209,456)	43,032	234,401	\$49.65
Van Ness Corridor/Chinatown	1,353,614	0	16.6%	0.4%	17.0%	30.8%	(13,591)	(20,310)	6,159	114,912	\$52.49
Waterfront/North Beach	3,924,316	0	21.4%	3.8%	25.2%	34.1%	(36,793)	(201,838)	4,703	40,065	\$25.51
Yerba Buena	3,944,507	0	37.1%	7.7%	44.7%	54.9%	(43,818)	(150,323)	7,277	59,989	\$51.05
San Francisco Totals	102,033,031	1,369,668	18.4%	5.3%	23.7%	32.1%	(1,284,611)	(5,027,241)	898,920	5,687,550	\$54.99
Class A	56,545,250	1,315,378	17.4%	5.2%	22.6%	30.4%	(831,922)	(3,273,392)	469,331	3,717,421	\$64.20
Class B	37,898,294	54,290	19.5%	6.1%	25.6%	35.0%	(411,862)	(1,543,936)	375,515	1,522,832	\$52.90
Class C	7,589,487	0	19.7%	2.5%	22.2%	30.3%	(40,827)	(209,913)	54,074	447,297	\$33.89

ECONOMIC REVIEW

UNEMPLOYMENT in San Francisco remained steady at 2.2%, as of November. Despite recession concerns, the labor market remains relatively vigorous. That said, it remains to be seen how the unemployment rate will be affected by the recent news of layoffs from a variety of companies, including Bay Area tech firms DoorDash, Kraken, and Twitter, among others.

INFLATION has been on the rise throughout 2022, leading to several interest rate hikes. 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

OCCUPANCY RATES have plateaued over the past few months according to data from Kastle Systems, a company that tracks building occupancy through its access card systems deployed in buildings around the country. In mid-December the San Francisco metro has a weekly occupancy rate of 41.8%, up by 1.1% from mid-September, and substantially up from early June, when it was only 34%. Recently, occupancy rates have ranged between 40-45% (+/- half the pre-Covid occupancy rate and the 2nd lowest in the country, with San Jose at the bottom).

MANY LARGER TENANTS in San Francisco continue to shed space, including Pinterest, which most likely will not renew at 410 Townsend Street. Databricks, Sigma Computing, and Parnassus Investments recently expanded their San Francisco office footprints, though for now, these appear to be outliers, rather than demonstrations of a new trend.

TOP SALE TRANSACTIONS 4Q 2022

Property	Submarket	SF	Sale Price	\$/SF	Buyer	Seller
1155 Mission St	MidMarket	15,678	\$9,500,000	\$605.94	IFPTE Local 21	A Star Holdings LLC
701 Sutter St	Van Ness/ Chinatown	19,250	\$8,350,000	\$433.77	SC Builders Inc.	Herscowitz Living Trust
431 Jessie St	MidMarket	6,000	\$4,368,000	\$728.00	SC Builders Inc.	Mindful Investments LP

TOP LEASE TRANSACTIONS 4Q 2022

Property	Submarket	SF	Transaction Date	Landlord	Tenant
160 Spear St	South Financial District	57,625	November 2022	Tishman Speyer	Databricks
116-118 New Montgomery St	South Financial District	50,348	December 2022	Jamestown, L.P.	Sigma Computing
44 Montgomery St	Financial District	47,800	October 2022	Beacon Capital Partners	Federal Communications Commission

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	Q3 2023
Mission Rock (Bldg G)	1051 3rd St	Mission Bay/ China Basin	300,000	Port of San Francisco	Q3 2023
30 Van Ness Ave	30 Van Ness Ave	MidMarket	235,071	LendLease US Services Inc.	Q4 2024

Data Source: Kidder Mathews Research, CoStar, US Bureau of Labor Statistics, State of California Employment Development Department



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COMMERCIAL BROKERAGE	<i>\$10.9B</i> TRANSACTION VOLUME ANNUALLY	<i>49.7M</i> ANNUAL SALES SF	<i>43.7M</i> ANNUAL LEASING SF
ASSET SERVICES	<i>52M</i> MANAGEMENT PORTFOLIO SF	<i>875+</i> ASSETS UNDER MANAGEMENT	<i>270+</i> ASSET SERVICES CLIENTS
VALUATION ADVISORY	<i>2,600+</i> ASSIGNMENTS ANNUALLY	<i>48</i> TOTAL APPRAISERS	<i>25</i> WITH MAI DESIGNATIONS

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