

## MARKET TRENDS

# SAN FRANCISCO OFFICE

### MARKET DRIVERS

San Francisco posted its nineteenth consecutive quarter of negative net absorption, posting negative 155,400 SF in 3Q 2024, bringing the year-to-date total to negative 841,039 SF. As a result, the market wide vacancy rate hit an all-time high of 31.8%. However, the rate of negative activity has notably slowed compared to 2023, when the quarterly average was negative 1.8 MSF. This deceleration is cause for optimism, possibly signaling a future rebound in both market energy and leasing activity. Total leasing activity has been on the rise over the past four quarters (Q4 2023 through Q3 2024), totaling more than 6.7M SF over that span, largely driven by AI firms, startups and small to mid-sized tenants.

On a year-to-date basis, Class A and B office buildings accounted for nearly 95% (4,441,969 SF) of the of total leasing activity since January (4,681,677 SF). The flight to quality is still evident as trophy Class A properties are continuing to attract tenants at discounted rates compared to pre-covid levels. Throughout the market, rental rates continue to decline as average direct rental asking rates fell to \$47.61 PSF across all markets and building classes. Within the Financial District, direct rental rates for Class A and Class B spaces have fallen to \$54.00 PSF and \$47.00 PSF, respectively. Despite the dip in rental rates, there is a large discrepancy in pricing with very limited compression.

Overall, the office market still exhibits the bifurcation of the post-pandemic era as trophy Class A offices with desirable amenities regularly rent for above \$65 PSF full service and average direct rental asking rates for Class B and C offices have fallen to \$42.50 PSF and \$34.50 PSF full service, respectively. Meanwhile, turnkey and sub-10,000 SF spaces have continued to drive activity with larger and non-plug-and-play product remaining a difficult sell.

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## Market Summary

	3Q24	2Q24	3Q23	YOY Change
Direct Vacancy Rate	26.4%	25.1%	22.7%	<b>370 bps</b>
Overall Vacancy Rate	31.8%	30.8%	28.5%	<b>330 bps</b>
FIDI Direct Lease Rate (A&B)	\$45.11	\$46.25	\$48.94	<b>-7.8%</b>
Under Construction SF	255,023	255,023	472,931	<b>-46.1%</b>
	3Q24	2024 YTD	2023 YTD	YOY Change
Construction Deliveries	0	83,358	401,453	<b>-79.2%</b>
Leased SF	1,349,109	4,681,677	3,422,295	<b>36.8%</b>
Sold SF	546,968	2,290,974	2,117,427	<b>8.2%</b>
Total Net Absorption	(155,400)	(841,039)	(5,635,373)	<b>-85.1%</b>

# 3Q 2024

↓ **1.3M SF**  
LEASING ACTIVITY

↑ **-155K SF**  
NET ABSORPTION

↑ **31.8%**  
TOTAL  
VACANCY RATE

↓ **\$45.11**  
ASKING RENT (AVG)

↓ **0 SF**  
NEW DELIVERIES

Year-Over-Year Trend

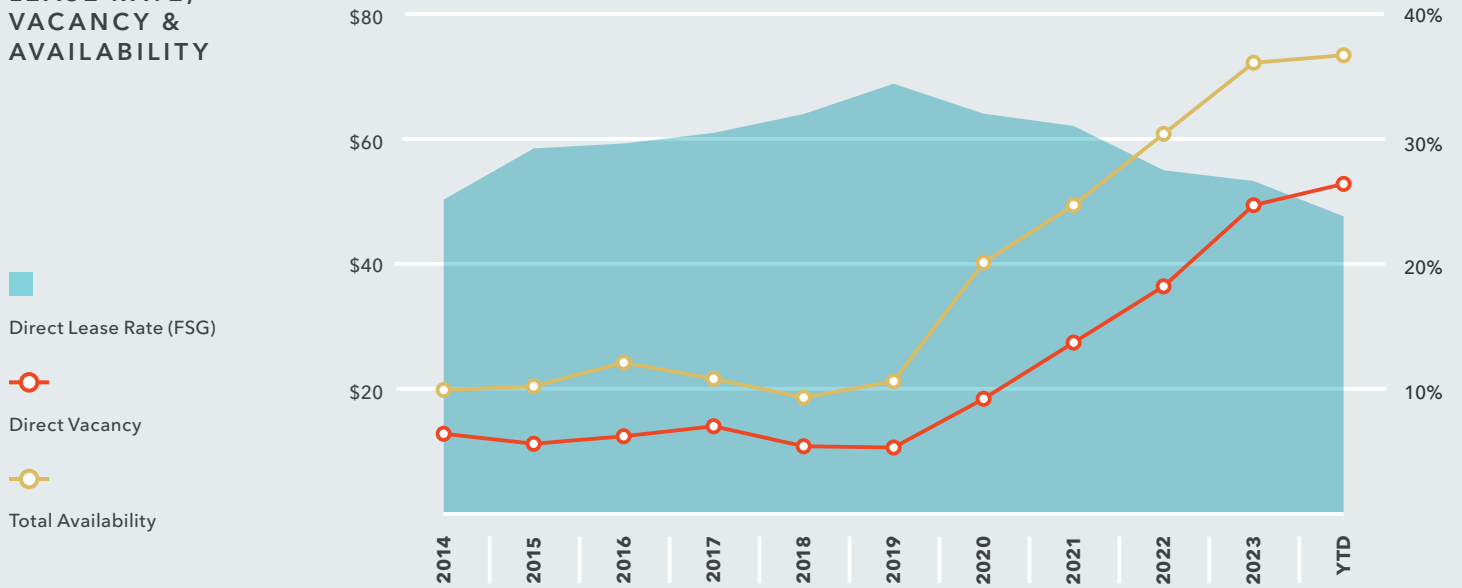
## Market Highlights

**NET ABSORPTION** posted its best quarterly figure since 2021 with -155,400 SF

**LEASING ACTIVITY** had its highest four-quarter total in three years

**OVERALL MARKET RENTS** continue to decline, standing at \$47.61/SF full service

## LEASE RATE, VACANCY & AVAILABILITY

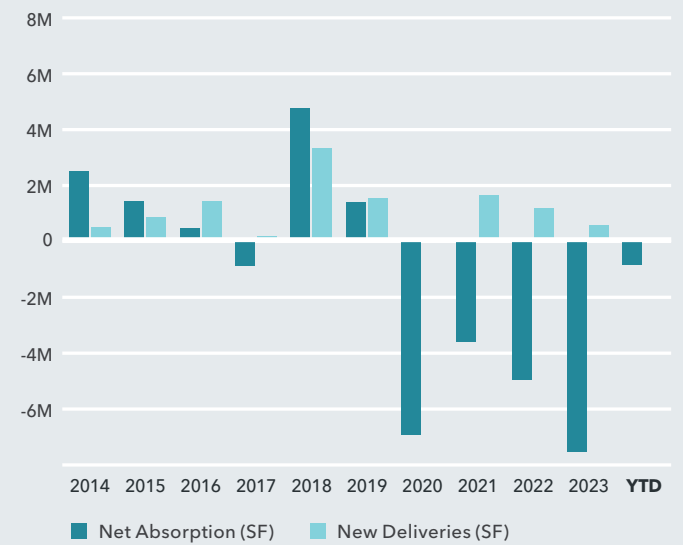


## BIGGEST SALE OF THE QUARTER

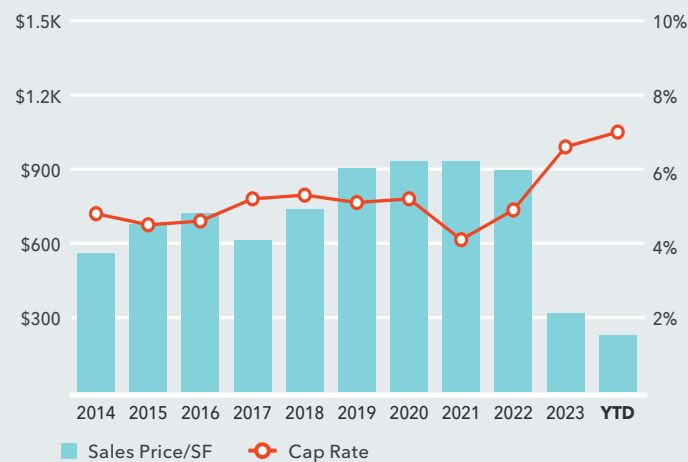
*795 Folsom St, San Francisco*



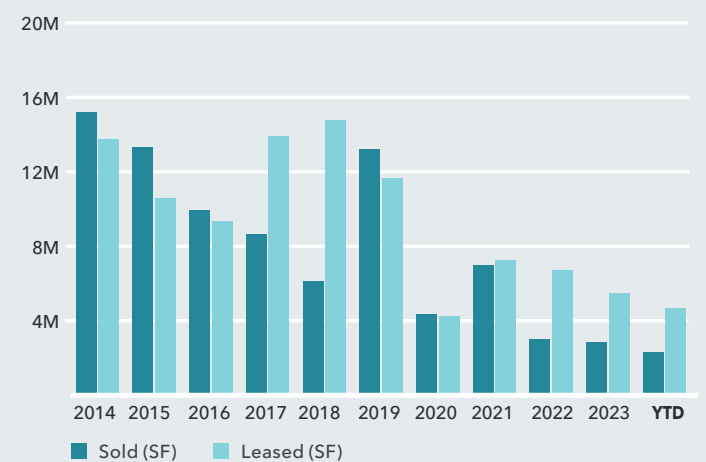
## NET ABSORPTION & NEW DELIVERIES



## 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 Availability Rate	3Q24 Total Net Absorption	YTD Total Net Absorption	3Q24 Leasing Activity	YTD Leasing Activity	Direct Rental Rate
Civic Center	616,967	0	24.1%	0.0%	24.1%	24.6%	-15,287	-28,266	0	14,751	\$33.29
Financial District	26,919,354	0	32.0%	3.1%	35.0%	35.4%	-197,454	-37,548	344,718	1,416,234	\$49.26
Jackson Square	2,369,488	0	15.9%	3.8%	19.7%	24.6%	-46,747	24,102	30,624	116,418	\$41.70
Mid Market	4,968,155	0	26.8%	7.2%	34.0%	48.3%	295,707	363,996	20,364	392,953	\$44.65
Mission Bay/China Basin	5,431,909	212,796	23.0%	8.7%	31.7%	39.2%	95,683	63,544	338,768	391,201	\$54.55
Mission/Potrero	3,163,957	225,733	17.0%	4.6%	21.6%	35.9%	-31,973	27,232	57,977	137,103	\$40.95
Rincon/South Beach	6,061,030	0	22.1%	8.3%	30.5%	38.6%	20,900	101,998	36,794	134,596	\$46.73
Showplace Square	3,736,388	0	24.0%	12.9%	37.0%	52.6%	56,293	116,299	3,982	31,443	\$42.55
South Financial District	30,221,183	0	23.0%	6.4%	29.4%	33.9%	-330,531	-1,183,347	375,924	1,230,739	\$50.73
SOMA	6,184,055	29,290	24.9%	1.7%	26.5%	31.6%	105,554	125,431	38,215	387,544	\$42.17
Union Square	4,335,405	0	29.2%	3.5%	32.7%	36.0%	-8,673	-120,165	74,130	262,754	\$45.83
Van Ness Corridor/Chinatown	1,340,853	0	15.6%	0.8%	19.8%	32.0%	-4,670	12,174	2,526	13,860	\$42.69
Waterfront/North Beach	3,931,549	0	32.0%	4.3%	36.3%	36.9%	-68,433	-194,413	25,087	104,004	\$42.18
Yerba Buena	4,027,730	0	38.0%	7.4%	45.4%	51.5%	-25,769	-112,076	0	48,077	\$41.48
<b>San Francisco Totals</b>	<b>103,308,023</b>	<b>467,819</b>	<b>26.4%</b>	<b>5.4%</b>	<b>31.8%</b>	<b>36.7%</b>	<b>-155,400</b>	<b>-841,039</b>	<b>1,349,109</b>	<b>4,681,677</b>	<b>\$47.61</b>
Class A	57,787,888	438,529	30.6%	5.4%	36.0%	41.8%	-277,506	-1,046,507	976,086	2,825,913	\$53.21
Class B	37,655,794	29,290	22.5%	6.1%	28.6%	34.5%	208,826	335,748	302,804	1,616,056	\$40.38
Class C	7,864,341	0	23.7%	2.0%	25.7%	30.6%	-86,720	-130,280	70,219	239,708	\$32.73

## ECONOMIC REVIEW

The unemployment rate in San Francisco rose in August, reaching 4.1%, the highest figure in nearly three years. In addition, labor force participation has declined versus the previous year, meaning total employment has fallen to a larger degree than unemployment figures suggest. Tech / Information industry and professional / business services sector layoffs have driven the majority of job loss from May 2023 through May 2024 according to data from California Employment Development Department. VC funding, underpinned by the rapidly growing AI startup space have seen notable gains in 2024.

Inflation continued to exhibit decline in recent months, though it still remains above the Federal Reserve's long-term target. A softening labor market coupled with inflation has led the Federal Reserve down a path of rate cuts. This said, Federal Reserve Chair Jerome Powell has pushed for a more pragmatic approach to future rate cuts, stating that in the moderate term reaching an equilibrium would be preferable. In this way it seems the Federal Reserve will look to stimulate the economy and rein in unemployment while also avoiding another inflationary spiral. The cumulative effects of years of robust price increases continue to contribute to layoffs, supply chain strain, and high raw material costs used in construction, the latter of which is delaying delivery times and tenant improvement projects.

## NEAR-TERM OUTLOOK

Many owners are currently struggling with non-performing assets. As landlords are unable to service their debt one of three things has regularly begun to occur – office product returns to lenders, financing is restructured, or assets are forced into distressed sales. Of these options, refinancing and returning to the lender have been the most popular paths, with lenders and borrowers alike unwilling to stomach large losses (as of yet) with the modus operandi of short-term leases and patience persisting. The effect of current and future rate cuts will likely increase the viability and popularity of refinancing, an option often preferable to banks reticent to become directly involved in direct management when avoidable.

The future growth of the San Francisco office leasing market will largely be determined by the acceleration of return to office (RTO) along with future job growth trends. While some firms have already started to push RTO mandates, many others are continuing to embrace the hybrid work model. Office attendance rates are estimated to be hovering just above 45% according to recent keycard usage data from Kastle Systems. Market indicators to keep an eye on moving forward include a sustained rate of return to office, a continued increase in leasing activity, persistent shedding of sublease availabilities (currently at a 2-year low), and positive economic and employment growth.

SIGNIFICANT SALE TRANSACTIONS 3Q 2024

Property	Submarket	SF	Sale Price	\$/SF	Buyer	Seller
795 Folsom Street	Yerba Buena	187,202	\$48,300,000	\$258.01	Fountainhead Hotels	ABS Capital Management
631 Howard Street	South Financial District	108,786	\$39,000,000	\$358.50	Flynn Properties, Inc.	Invesco Advisers, Inc.
99 Rhode Island Street	Showplace Square	6,780	\$23,500,000	\$3,466.08	Westwood U.S. Inc.	A10 Capital

SIGNIFICANT LEASE TRANSACTIONS 3Q 2024

Property	Submarket	SF	Transaction Date	Landlord	Tenant
2525 16th Street	Mission/Potrero	34,156	August 2024	2525 16th Street Property	Fellow Industries Inc.
255 Kearny	Union Square	15,372	September 2024	Panco Development, Inc.	Atelier Ten
972 Mission Street	Financial District	11,000	August 2024	972 Mission Li LLC.	Ground Matrix

SIGNIFICANT UNDER CONSTRUCTION

Property	Address	Submarket	SF	Owner	Delivery
1850 Bryant St	1850 Bryant St	Mission/Potrero	225,733	Abbett Electric Corporation	4Q 2028
952-960 Howard St	952-960 Howard St	South of Market	29,290	oWOW	1Q 2026

Data Source: CoStar, United States Bureau of Labor Statistics, Kastle Systems, Kidder Mathews



Kidder Mathews is the largest fully independent commercial real estate firm in the Western U.S., with over 900 real estate professionals and staff in 19 offices in Washington, Oregon, California, Idaho, Nevada, and Arizona. We offer a complete range of brokerage, appraisal, asset services, consulting, and debt & equity finance services for all property types.

The information in this report was composed by the Kidder Mathews Research Group.

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COMMERCIAL BROKERAGE	<i>\$10B</i> 3-YEAR AVERAGE TRANSACTION VOLUME	<i>31.7M</i> ANNUAL SALES SF	<i>42.4M</i> ANNUAL LEASING SF
ASSET SERVICES	<i>55M SF</i> MANAGEMENT PORTFOLIO SIZE	<i>800+</i> ASSETS UNDER MANAGEMENT	<i>260+</i> CLIENTS SERVED
VALUATION ADVISORY	<i>2,600+</i> 3-YEAR AVERAGE ASSIGNMENTS	<i>43</i> TOTAL APPRAISERS	<i>27</i> WITH MAI DESIGNATIONS

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