

MARKET TRENDS

SAN FRANCISCO OFFICE

MARKET DRIVERS

Given the numerous challenges experienced by the San Francisco office market over the past four years, the market may finally be at the cusp of a correction and recovery period. There is cautious optimism due to a 9% increase in leasing activity, year-over-year and positive net absorption in 4Q 2024 – for the first time since 2019. The technology industry is poised for growth, companies focused on artificial intelligence remain active, and businesses are beginning to implement return to work mandates for their employees – all positive drivers for future office growth in San Francisco.

Regardless, there are still many hurdles to overcome with more than 32.2M SF of vacant space across all classes (31.0% vacancy), compared to 7.4M SF prior to the onset of the pandemic (7.3% vacancy). At the current rate of leasing, it would take approximately 4-5 years to return to a similar state of vacancy. However, a more realistic time frame is much longer than that, given the current dynamics of the office market. While there continues to be a flight to quality to Class A properties due to location, amenities and discounted rates, a bifurcation remains with varying performance among asset classes and submarkets. On an annual basis, Class A properties accounted for 65% of the total leasing activity in 2024, followed by 30% in Class B. Additionally, more than 62% of the leasing activity occurred in the Financial and South Financial Districts, with both submarkets leading the recovery.

Sublease space, which has recently been a key catalyst for increasing vacancy and availability, decreased by 3% in 4Q 2024, dropping to under 8M SF for the first time since 2022. All told, sublease availability accounts for approximately 21% of the total available space on the market – significantly lower than the 40%+ in 2020, but still notable higher than the longer-term pre-covid average of 14%-15%. The drop can be attributed to both new leases occurring in 2024 as well as tenants taking back some of their space to accommodate employees returning to the office.

While the investment market picked-up in 2024, volume and activity remain muted with a continuation of underperforming results. Total volume in 2024 was \$660M compared to \$596M in 2023 but \$7.1B in 2019. In total, 41 transactions occurred in 2024 totaling 871,064 SF. Although recent rate cuts may bring additional activity to the investment market, investors will be cautious about the recovery path of San Francisco, likely looking for opportunity and value.

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Market Summary

	4Q24	3Q24	4Q23	YOY Change
Direct Vacancy Rate	26.3%	26.1%	25.2%	110 bps
Overall Vacancy Rate	31.0%	31.2%	30.6%	40 bps
FIDI Direct Lease Rate (A&B)	\$47.11	\$47.61	\$53.26	-11.6%
Under Construction SF	0	0	472,931	N/A
	4Q24	2024	2023	YOY Change
Leasing Activity	1,804,516	5,850,030	5,348,648	9.4%
Net Absorption	179,388	-661,651	-7,226,663	-90.8%
New Deliveries	0	83,358	747,808	-88.9%
Sale Volume (SF)	1,190,526	3,484,257	2,856,573	22.0%

4Q 2024

↑ **1.8M SF**
LEASING ACTIVITY

↑ **179K SF**
NET ABSORPTION

↑ **31.0%**
TOTAL
VACANCY RATE

↓ **\$47.11**
ASKING RENT (AVG)

↓ **0 SF**
NEW DELIVERIES

Year-Over-Year Trend

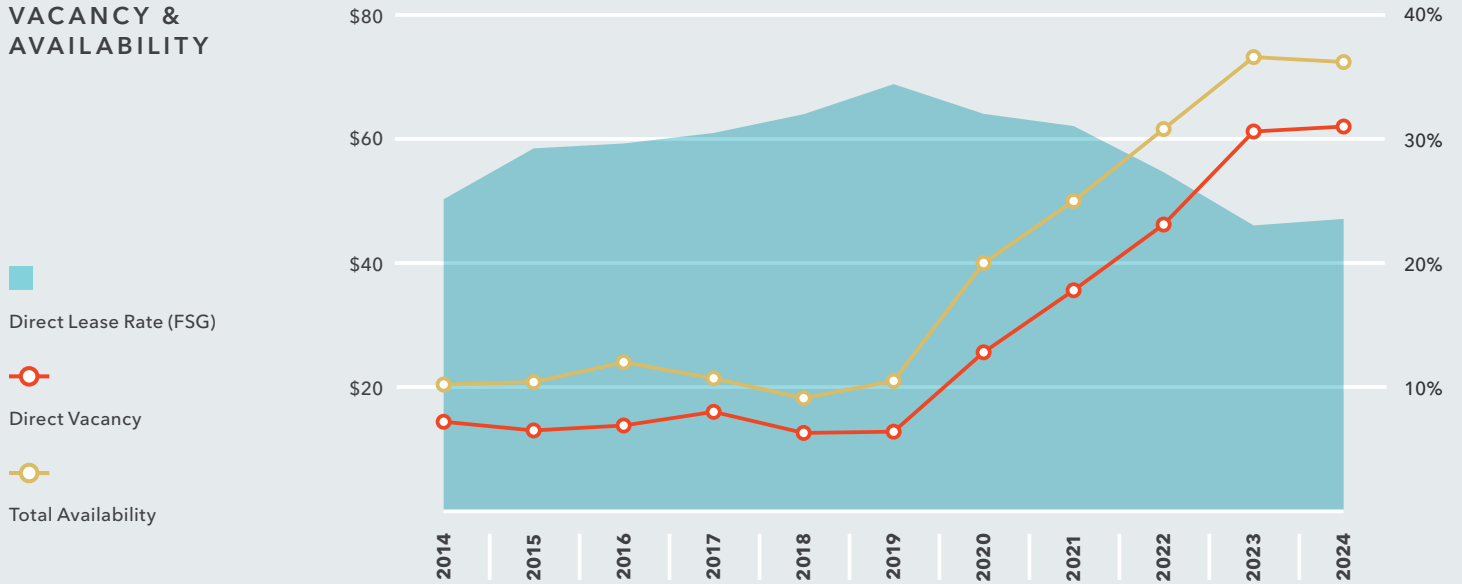
Market Highlights

NET ABSORPTION posted its first positive quarterly total since 2019, totaling 179K SF

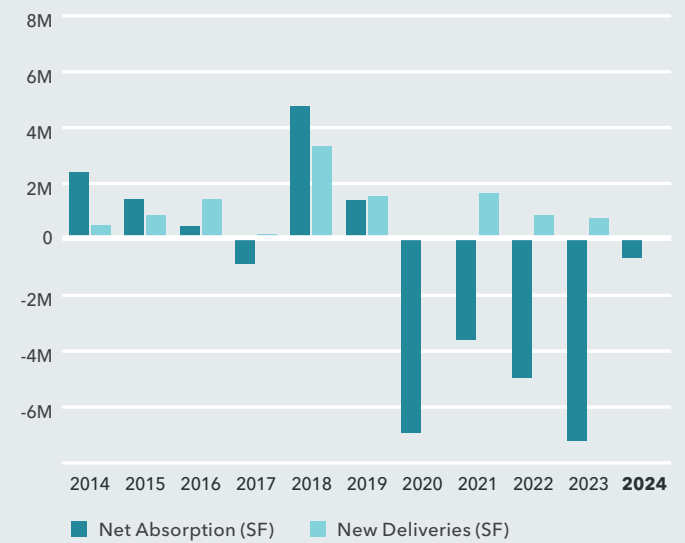
LEASING ACTIVITY outpaced the previous year by 9%, with 5.8M SF in 2024, annually

OVERALL ASKING RENTS decreased this quarter, from \$47.61 to \$47.11 FS gross

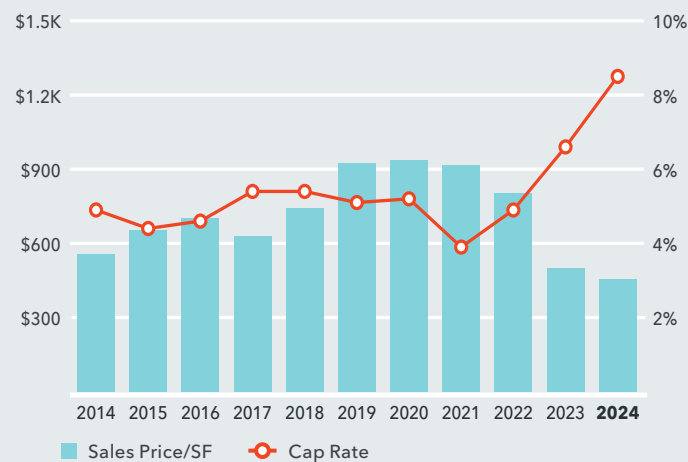
LEASE RATE, VACANCY & AVAILABILITY



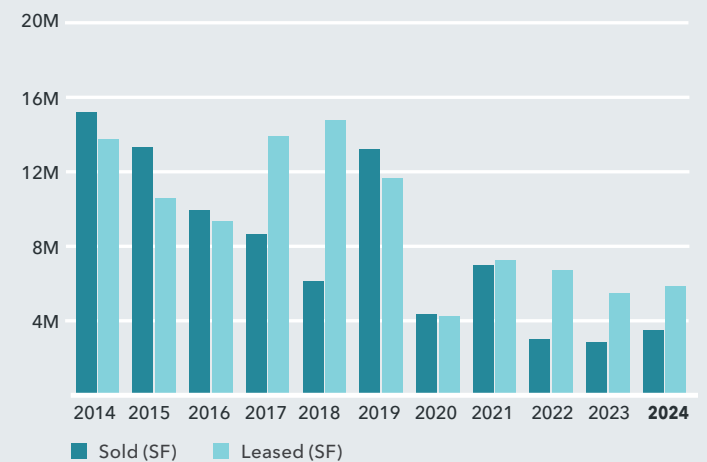
NET ABSORPTION & NEW DELIVERIES



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	4Q24 Total Net Absorption	2024 Total Net Absorption	4Q24 Leasing Activity	2024 Leasing Activity	Direct Rental Rate
Civic Center	688,193	0	27.4%	0.0%	27.4%	21.4%	15,853	-12,413	4,420	19,171	\$32.29
Financial District	30,442,581	0	29.1%	2.6%	31.7%	34.8%	-32,716	-70,264	682,276	2,015,829	\$48.76
Jackson Square	2,382,228	0	19.2%	3.6%	22.8%	25.1%	-24,823	-721	41,540	142,958	\$43.58
Mid Market	5,321,720	0	33.6%	6.7%	40.3%	61.4%	-166,396	197,600	10,356	245,309	\$44.15
Mission Bay/China Basin	4,945,597	0	19.7%	4.2%	23.9%	33.0%	306,409	369,953	278,100	639,549	\$54.55
Mission/Potrero	1,919,718	0	12.8%	1.0%	13.8%	22.4%	50,663	77,895	46,028	175,660	\$40.45
Rincon/South Beach	6,413,048	0	22.2%	5.6%	27.7%	35.3%	160,419	262,417	122,493	259,289	\$46.23
Showplace Square	4,394,716	0	20.8%	12.0%	32.8%	44.0%	9,107	125,406	30,194	55,458	\$42.05
South Financial District	29,606,116	0	24.3%	6.2%	30.4%	34.7%	-47,363	-1,230,710	451,886	1,638,698	\$50.23
SOMA	3,799,656	0	33.2%	2.6%	35.9%	31.9%	-98,066	27,365	29,272	241,305	\$41.67
Union Square	4,668,043	0	28.1%	2.6%	30.6%	31.6%	-14,328	-134,493	29,522	185,462	\$45.33
Van Ness Corridor/Chinatown	1,604,416	0	17.2%	1.4%	18.6%	25.6%	-1,039	11,135	0	13,860	\$43.19
Waterfront/North Beach	3,734,090	0	32.0%	4.4%	36.4%	37.1%	74,481	-119,932	32,788	136,292	\$41.68
Yerba Buena	4,108,852	0	40.5%	7.1%	47.6%	54.4%	-52,813	-164,889	45,641	81,190	\$40.98
San Francisco Totals	104,028,974	0	26.3%	4.7%	31.0%	36.2%	179,388	-661,651	1,804,516	5,850,030	\$47.11
Class A	64,026,382	0	26.8%	4.6%	31.4%	35.9%	199,074	-847,433	1,324,078	3,825,842	\$52.71
Class B	32,918,408	0	27.6%	5.3%	32.9%	39.5%	-45,890	289,858	439,267	1,765,689	\$40.88
Class C	7,084,184	0	21.3%	2.3%	23.5%	26.9%	26,204	-104,076	41,171	258,499	\$33.23

ECONOMIC REVIEW

Economic uncertainty remains across the Bay Area, with lukewarm job growth, increasing unemployment and elevated interest rates. The unemployment rate for San Francisco County was 3.7% in November, a decrease compared to last quarter but a slight increase from one year ago. However, the labor force participation has declined versus the previous year, meaning total employment has fallen to a larger degree than unemployment figures suggest. Recent layoffs from the Technology-Information sector and the Professional-Business Services sector layoffs have driven the majority of job losses during the past year according to the California Employment Development Department.

Although inflation rates have recently stabilized, many expect core inflation to remain above the Fed's target of 2% in 2025. With that said, the overall economic outlook is relatively positive for 2025 with many employers projected to hire during the first half of the year. A softening labor market coupled with inflation led the Federal Reserve down a path of rate cuts in 2024, while 2025 is expected to see additional interest rate cuts, but at a relatively slow progression with two cuts appears to be the most likely scenario.

NEAR-TERM OUTLOOK

In early 2025, there will be a few trends worth monitoring. First, more and more companies are beginning to implement return to work mandates that are expected to revitalize most office markets across the country, including the Bay Area. While work from home and hybrid work policies will persist, there is expected to be a conscious shift to a more balanced workforce. If this trend continues to gain momentum and employees continue to fill office buildings, the office market will likely shift to recovery and growth mode sooner than expected. Additionally, the new presidential and mayoral administration changes will likely bring new policies impacting both the economy and commercial real estate - with potential tax breaks and a notable shift to a business-friendly environment that could spur future growth in the office market. Lastly, expansion in both the technology and AI sectors is expected to provide a spark for future tenant demand activity, while modest growth across all other sectors will likely assist in filling additional voids in vacancy.

SIGNIFICANT SALE TRANSACTIONS 4Q 2024

Property	Submarket	SF	Sale Price	\$/SF	Buyer	Seller
Foundry Square II (Part of a Portfolio Sale)	South Financial District	521,555	\$159,900,428	\$612	Norges Bank	Nuveen
888 Brannan (Part of a Portfolio Sale)	Showplace Square	351,348	\$77,936,668	\$443	Norges Bank	Nuveen
500 Washington St.	Jackson Square	99,208	\$32,650,000	\$329	Barings	Public Policy Institute of CA
400-404 Montgomery St	Financial District	86,230	\$25,750,000	\$299	REDCO Development	Harvest Properties

SIGNIFICANT LEASE TRANSACTIONS 4Q 2024

Property	Submarket	SF	Transaction Date	Landlord	Tenant
185 Berry St.	Mission Bay/China Basin	170,027	December 2024	JP Morgan	Lyft (Renewal)
685 Market St.	South Financial District	114,646	October 2024	Brookfield Properties	Notion
555 California St.	Financial District	46,000	November 2024	Vornado Realty Trust	Wells Fargo Advisors
3180 18th St.	Mission/Potrero	37,104	October 2024	American Realty Advisors	xAI (Sublease)

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



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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>57M SF</i> MANAGEMENT PORTFOLIO SIZE	<i>850+</i> ASSETS UNDER MANAGEMENT	<i>260+</i> CLIENTS SERVED
VALUATION ADVISORY	<i>2,600+</i> 3-YEAR AVERAGE ASSIGNMENTS	<i>39</i> TOTAL APPRAISERS	<i>24</i> WITH MAI DESIGNATIONS