

# SAN FRANCISCO OFFICE MARKET

Q2 2024



## TRENDLINES

	Q2 2024	Q2 2023	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
Unemployment Rate	4.2	3.2	↑	4.7	↓
Net Absorption (Thousands SF)	207.1	(864.9)	↓	(758.0)	↑
Overall Vacancy Rate	21.2%	17.7%	↑	11.7%	↓
Overall Vacant Sf (MSF)	23.4	19.5	↑	12.8	↑
Under Construction (MSF)	0.1	0.2	↔	1.3	↑
Asking Rent (PSF)	\$43.60	\$38.59	↑	\$54.64	↑
Sales Volume (Millions)	\$155.9	\$25	↑	\$649.51	↔

Source: Bureau of Labor Statistics, CoStar, Real Capital Analytics, Transwestern

## OFFICE MARKET OVERVIEW

### Preliminary Signs of Recovery

Landlords of office space have been looking for signs of a positive prognosis after the flatlining of the office market that occurred after COVID. With overall vacancy steadily increasing, the one segment of the market with continued demand is premium space in trophy buildings with views. Buoyed by the high rents for those spaces, year-over-year average asking rent for all classes has increased by 13%. At the same time, the quarterly net absorption went from approximately negative 865,000 square feet in Q2 of 2023, to a positive 207,000 square feet at the end of Q2 this year, an upward trend not seen since the 3<sup>rd</sup> quarter of 2019. The drop in building sale prices has kept owners active in searching for new opportunities, leading to a sales volume of \$155 million, a figure six times higher than where it rested in Q2 of 2023. With all things considered, San Francisco's office market is seeing very preliminary signs of recovery across multiple categories.

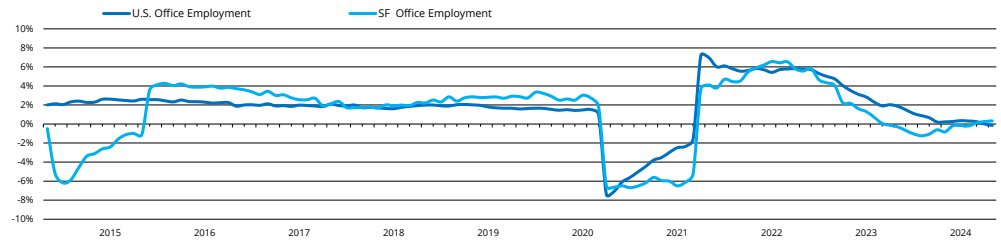


### ECONOMY

#### U.S. Employment Decline Stabilizing

The present economy grapples with challenges impacting prices and the job market alike. As the overall cost of living steadily rises, it has played a role in stabilizing the decline of U.S. employment. In San Francisco, there has been a slight uptick in office jobs overall and a more significant increase in healthcare services and education employment over the past year, bolstering high average salaries and fostering increased consumer participation in our local economy. This growth underscores the city's resilience amidst broader economic uncertainties, highlighting its role as a hub for innovation and opportunity in diverse sectors such as AI, technology, finance, and biotechnology.

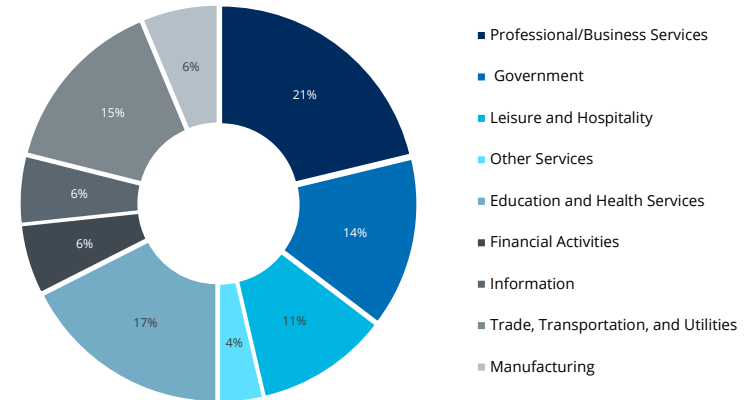
### Y-O-Y CHANGE IN OFFICE JOBS



Source: Bureau of Labor Statistics, Transwestern

### SHARE OF EMPLOYEES BY INDUSTRY

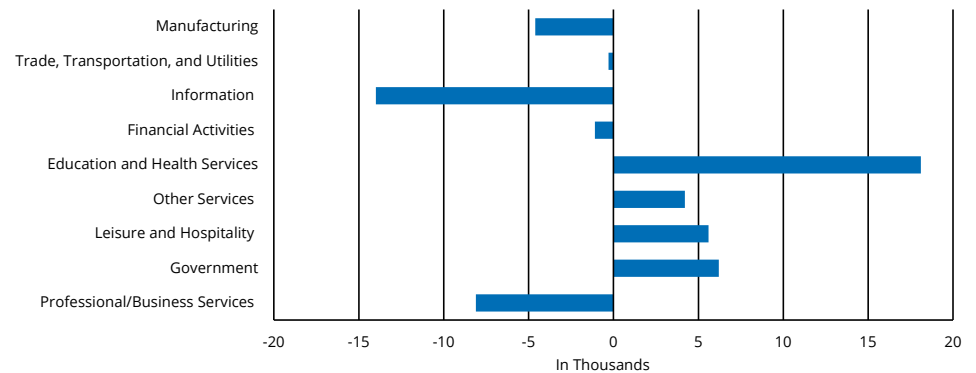
San Francisco | February 2024



Source: Bureau of Labor Statistics, Transwestern

### Y-O-Y CHANGE IN JOBS BY INDUSTRY

San Francisco



Source: Bureau of Labor Statistics, Transwestern

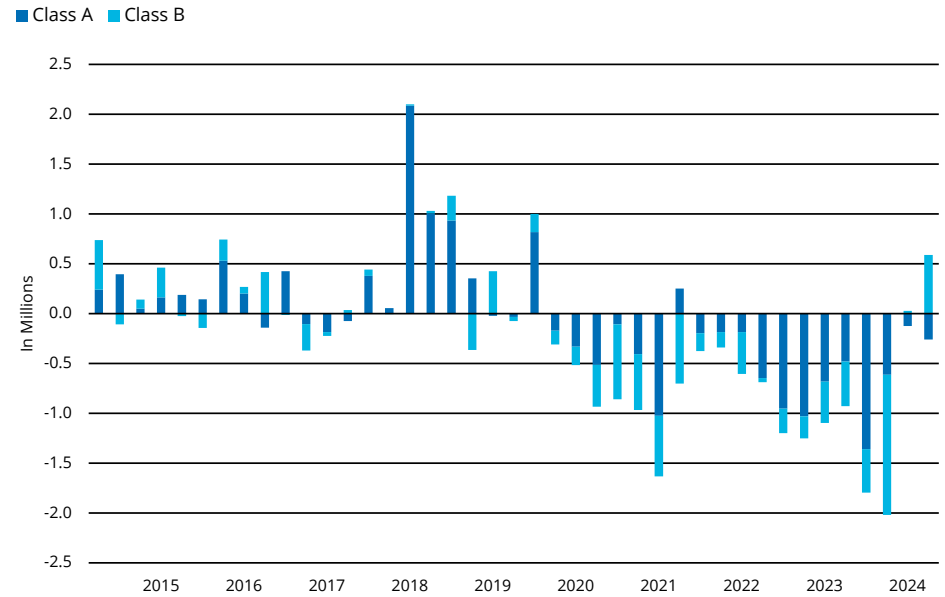


### NET ABSORPTION

#### Increased Activity in the Market Shows Positive Net Absorption

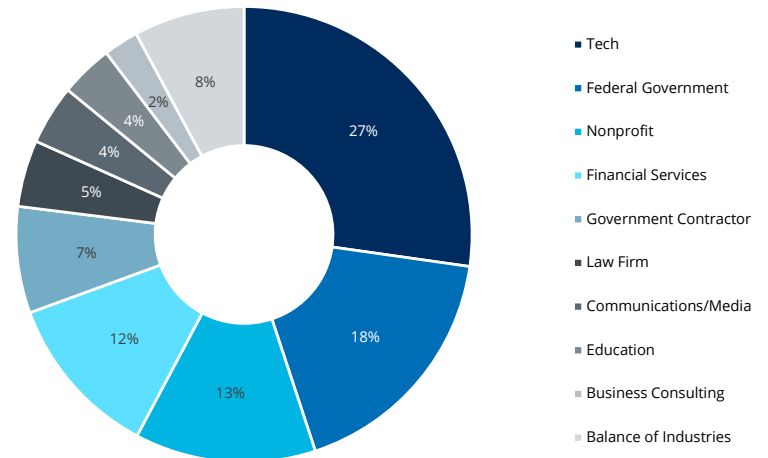
Fortunately, 2<sup>nd</sup> quarter absorption did not dip further into negative territory. In fact, a positive net absorption of 207,086 was shown, a positive net absorption has not been shown in 19 quarters. The numbers have been improving incrementally on a quarter-over-quarter basis, although not yet on a year-over-year basis where absorption dropped to -4.5M square feet. Class A office represented much of that negative absorption total, contributing -2.3M square feet. We are witnessing increased activity in the market. All submarkets, except Mission Bay, South Financial District, Union Square, and Van Ness/Chinatown, saw positive net absorption. This is alongside the total positive year-to-date net absorption of 108,736 sf. With minimal construction plans in the pipeline and AI startups looking to take advantage of the numerous subleases available, it seems that net absorption will be on the rise looking forward.

### NET ABSORPTION BY CLASS



Source: CoStar, Transwestern

### SHARE OF LEASING ACTIVITY BY INDUSTRY Q2 2024



Source: CoStar, Transwestern

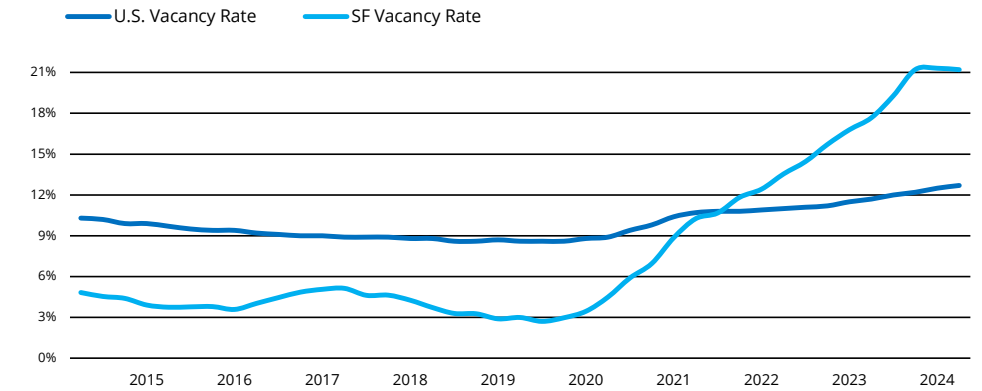


### VACANCY

#### Favorable Submarkets Coming into View During San Francisco Recovery

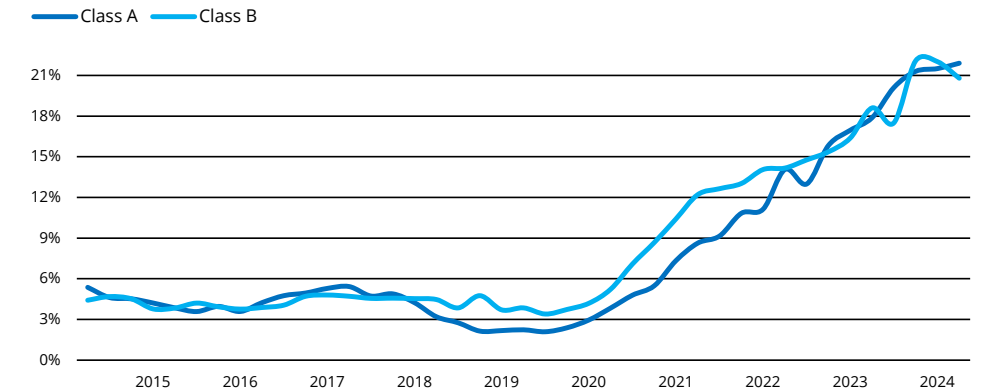
The amount of space available regardless of building class - whether it's vacant, occupied with an expiring lease not looking to renew, or a sublease - the overall availability rate for San Francisco office remains at 34.3%. Looking deeper into the numbers, over the past three quarters, the overall pure vacancy rate for Class A and B office spaces has remained steady, hovering around 29%. But, at the submarket level, there are some staggering vacancy numbers, with SOMA at 40.4% and Yerba Buena at 49.7% leading the pack. There have, however, been some improvements in vacancy percentages in the following submarkets: The Financial District, Jackson Square, and Rincon/South Beach. These improving vacancy numbers reflect potential shifts in demand and occupancy within the commercial real estate sector in those areas.

### OVERALL VACANCY RATE



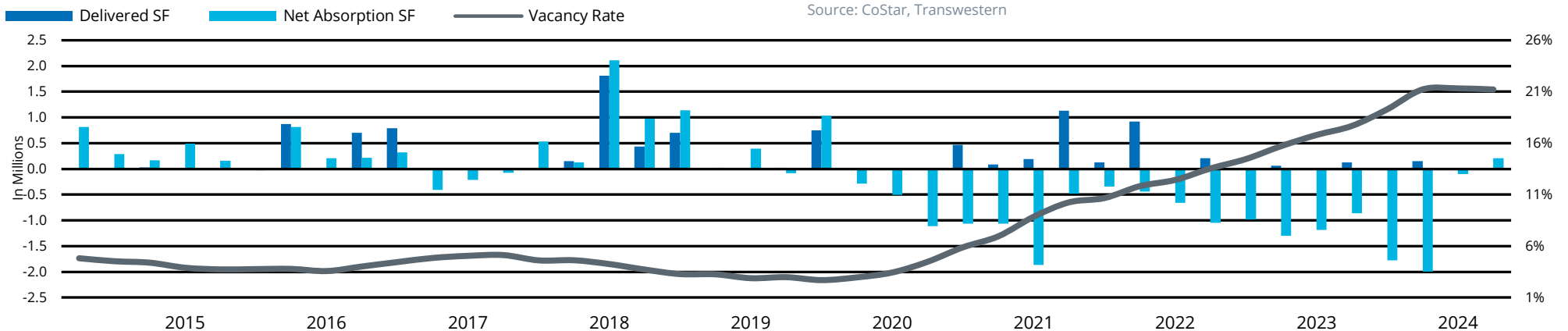
Source: CoStar, Transwestern

### OVERALL VACANCY RATE BY CLASS



Source: CoStar, Transwestern

### DELIVERY IMPACT ON KEY INDICATORS



Source: CoStar, Transwestern

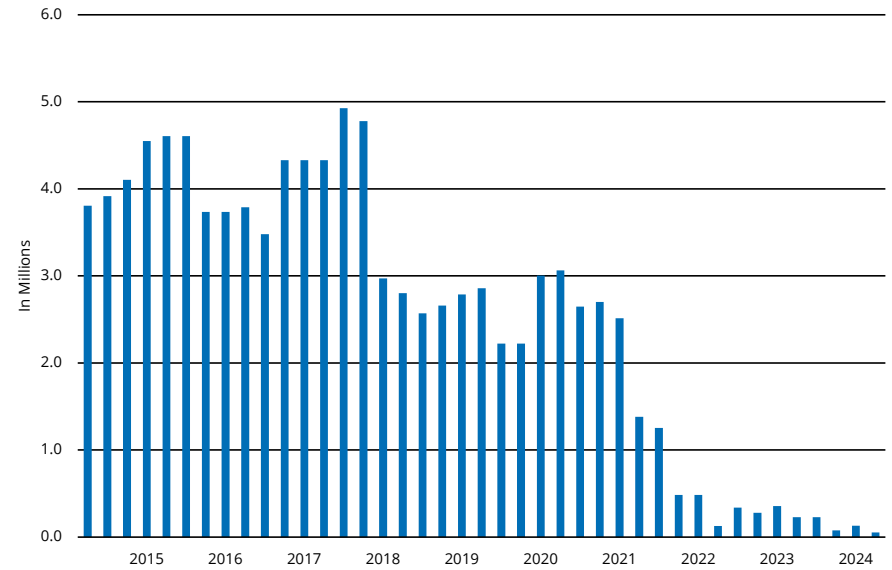


### UNDER CONSTRUCTION

#### Priorities overtake Construction Plans

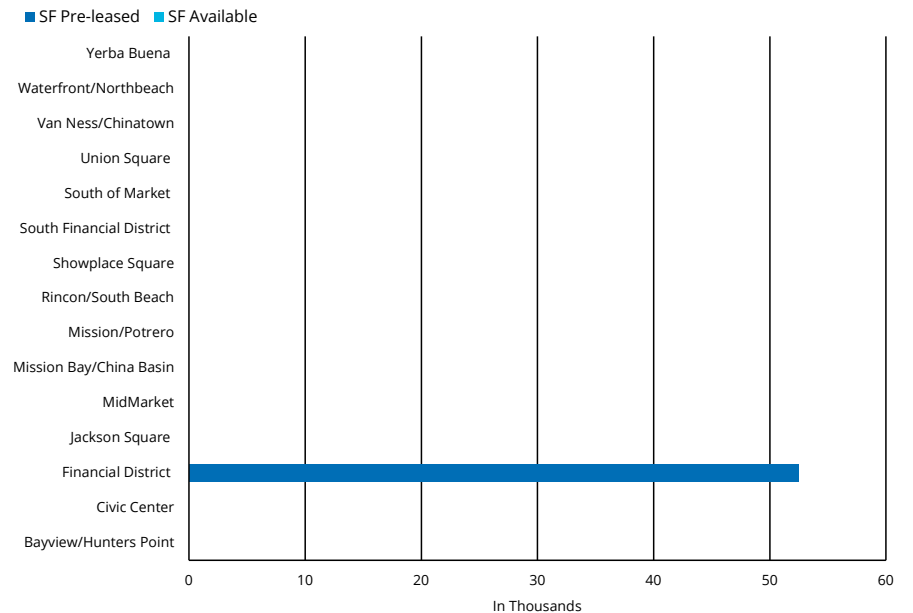
San Francisco is navigating through a transitional period with uncertainty about the direction of the future. Therefore, priorities other than devoting money to new construction have taken precedence. With the magnitude of available office space on the market, landlords are instead directing money towards building out their existing properties to make them more competitive. This includes adding new building amenities for tenants or developing spec suits in support of the flight to quality trend. Apart from the exception of construction in the financial district, new projects have stalled for the time being. Looking forward, plans to further develop the Mission Bay submarket remain in conversation as the city aims for recovery.

### UNDER CONSTRUCTION



Source: CoStar, Transwestern

### UNDER CONSTRUCTION BY SUBMARKET



Source: CoStar, Transwestern

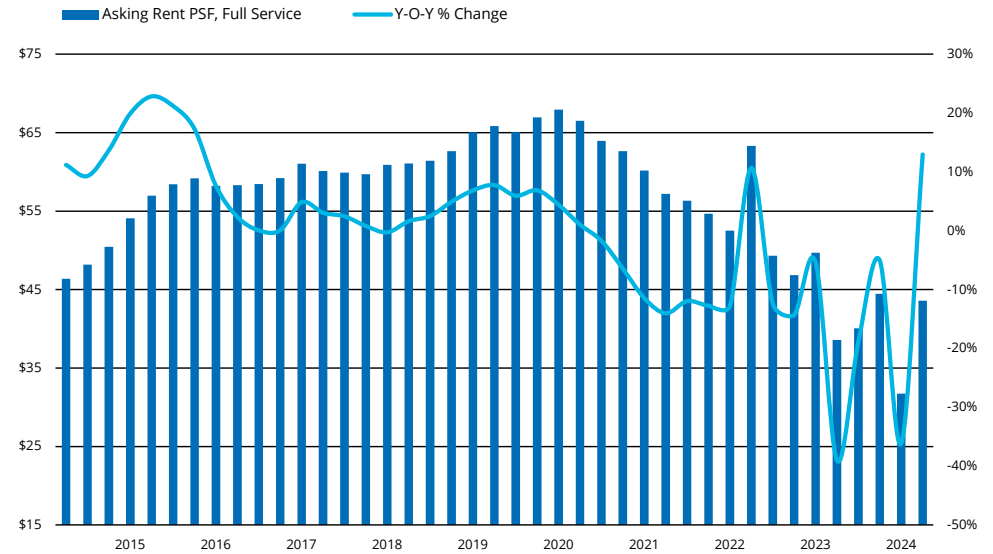


### LEASING AND RENTAL RATES

#### Asking Rents Experiencing Difficulties

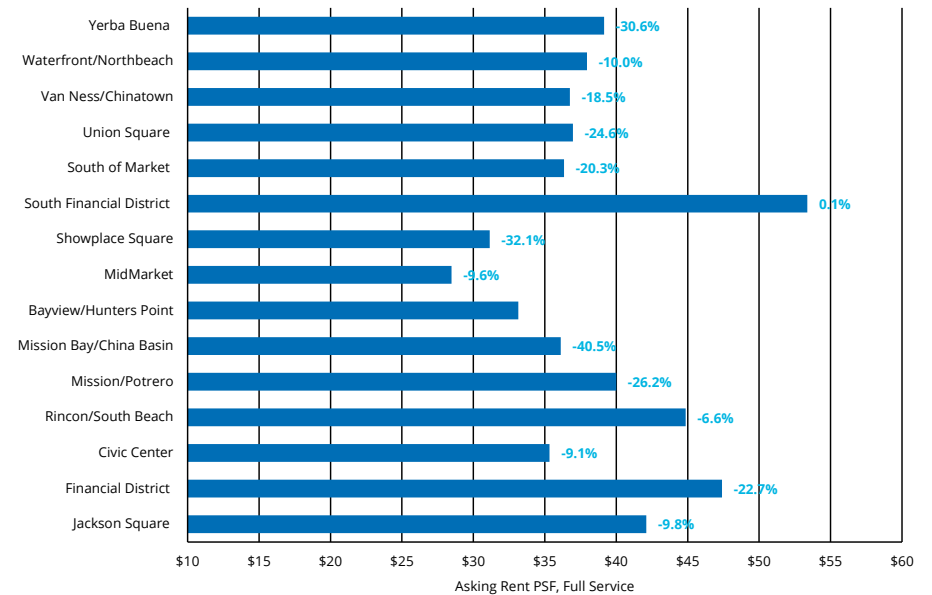
This quarter showed positive asking rent growth of 17.9% over Q1 for all building classes combined, citywide. But the fact that the only submarket to experience positive rent growth (22.9%) was the Financial District indicates that the overall positive growth statistics are being impacted by that one submarket. The majority of submarkets are experiencing a decline in asking rents, hovering around the overall average of \$46.15. Digging deeper into the Financial District numbers, they are skewed positively by South Financial District impressive quarter-over-quarter and year-over-year rent increases of 47.4% and 30.2%, respectively, while North Financial District asking rents dropped by 9.5% and 1.3%, respectively, for those same periods.

### ASKING RENT



Source: CoStar, Transwestern

### ASKING RENTS BY SUBMARKET AND Y-O-Y GROWTH



Source: CoStar, Transwestern

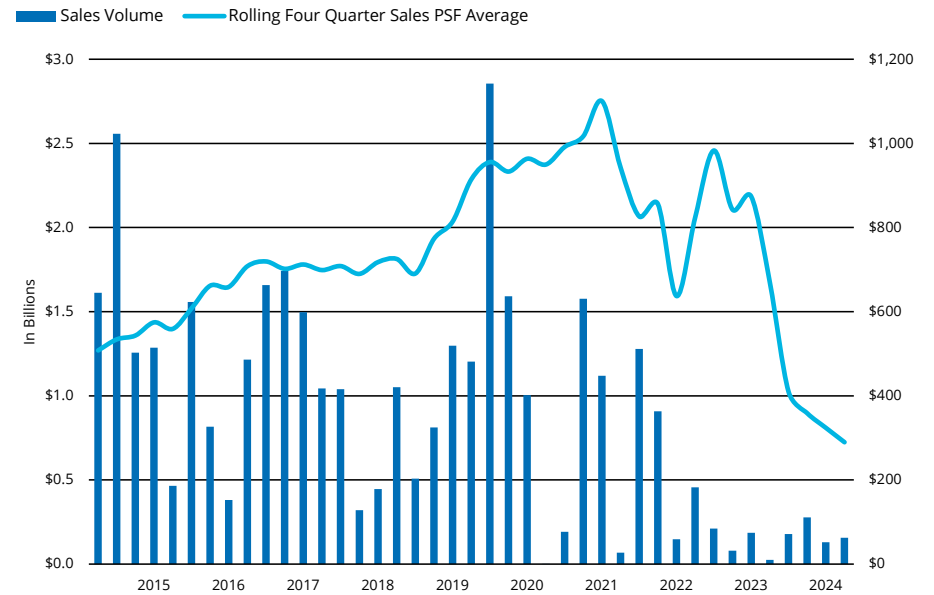


### SALES

#### 2024 Sales Volume Expected to Surpass 2023

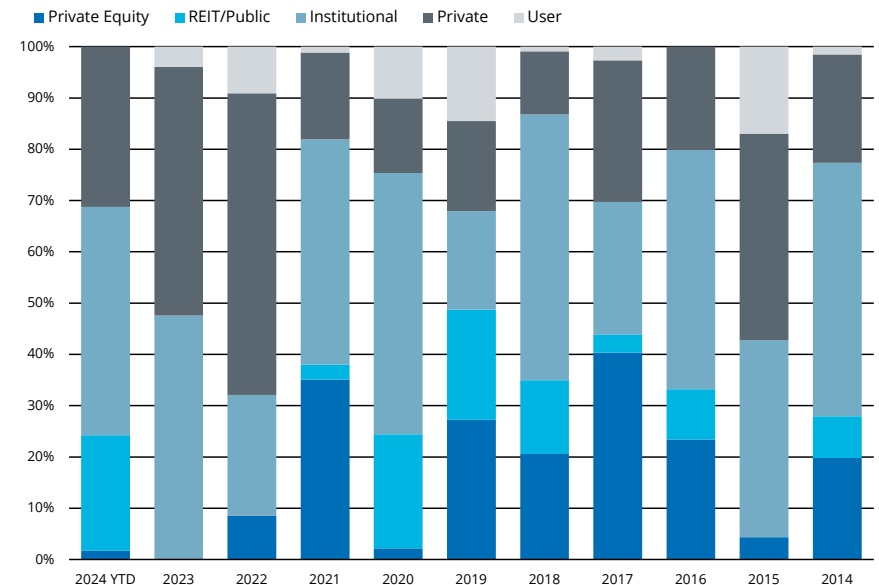
This year-to-date, office sales were sluggish, recording \$344M in sales volume. Yet is on pace to surpass the 2023 sales volume total of \$492M. Comparing the current year to date sales volume to 2019, which recorded \$6.8B, leaves a lot of room for improvement for the current market. Limited market liquidity has significantly contributed to the downturn in sales, with the challenging lending climate dampening purchasing interest, in spite of the fact that many properties are now available below their replacement cost. However, with estimated reduction of office building values by 25% to 50%, depending on the location, there remain prime buying opportunities for investors with readily available capital.

### SALES VOLUME



Source: CoStar, Transwestern

### BUYER CAPITAL COMPOSITION



Source: CoStar, Transwestern



### NOTABLE LEASES

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
Scale.AI	650 Townsend St	South of Market	Sublease	178,234
City of San Francisco	1455 Market St	Mid-Market	New	157,154
Rippling	400-430 California	Financial District	New	123,000
Orrick Herrington & Sutcliffe	406 Howard	South Financial District	Renewal	104,671
Autodesk, Inc	1 Market St	South Financial District	Renewal	75,176

Source: CoStar, Transwestern

### NOTABLE SALES

ADDRESS	SUBMARKET	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
300 California	Financial District	\$28,500,000	119,000	\$240	REDCO Development	Newport Office Center V Associates, LLC
410 Townsend	South of Market	\$22,000,000	78,000	\$282	Bridgeton/New York Life	Nationwide Mutual
451 Pacific Ave	Jackson Square	\$8,750,000	10,264	\$852	Thrive Capital Management	MXB Properties, LP
144-154 2 <sup>nd</sup> St	South Financial District	\$6,550,000	30,996	\$211	StartupHQ LLC	DoMyLLC

Source: CoStar, Transwestern

= Transwestern deal



**MARKET INDICATORS**

All Classes of Space | Q2 2024

SUBMARKET	INVENTORY SF	DIRECT VACANT SF	DIRECT VACANCY RATE	OVERALL VACANCY RATE	UNDER CONSTRUCTION SF	NET ABSORPTION SF	Y-O-Y NET ABSORPTION SF	ASKING RENT PSF
Bayview/Hunters Point	547,531	70,232	12.8%	14.5%	0	7,837	(57,396)	\$33.15
Civic Center	925,622	194,193	21.0%	32.9%	0	9,089	(61,103)	\$35.55
Financial District	30,542,583	7,627,081	25.0%	29.4%	52,481	142,241	(1,185,894)	\$47.47
Jackson Square	2,500,977	379,925	15.2%	20.5%	0	23,621	47,646	\$42.11
MidMarket	6,109,181	1,426,927	23.4%	28.5%	0	114,931	(416,425)	\$28.47
Mission Bay/China Basin	4,622,411	720,022	15.6%	26.0%	0	(65,719)	(471,643)	\$36.12
Mission/Potrero	3,181,501	241,784	7.6%	10.3%	0	4,118	5,251	\$40.53
Rincon/South Beach	7,295,629	1,241,120	17.0%	31.0%	0	63,017	159,554	\$44.86
Showplace Square	4,385,738	810,343	18.5%	32.3%	0	55,197	(60,291)	\$31.14
South Financial District	30,224,309	6,072,482	20.1%	27.6%	0	(285,098)	(1,429,808)	\$53.38
South of Market	4,590,050	740,625	16.1%	34.3%	0	158,020	63,732	\$36.35
Union Square	5,070,900	1,118,873	22.1%	25.4%	0	(123,669)	(91,481)	\$36.97
Van Ness/Chinatown	1,857,112	162,671	8.8%	13.3%	0	(1,707)	(33,583)	\$36.76
Waterfront/North Beach	4,124,183	1,085,630	26.3%	32.4%	0	7,138	(279,552)	\$37.95
Yerba Buena	4,315,537	1,512,330	35.0%	47.1%	0	108,629	46,796	\$39.15
<b>TOTAL</b>	<b>110,293,264</b>	<b>23,404,238</b>	<b>21.2%</b>	<b>29.1%</b>	<b>52,481</b>	<b>207,086</b>	<b>(4,528,827)</b>	<b>\$46.15</b>

Source: CoStar, Transwestern

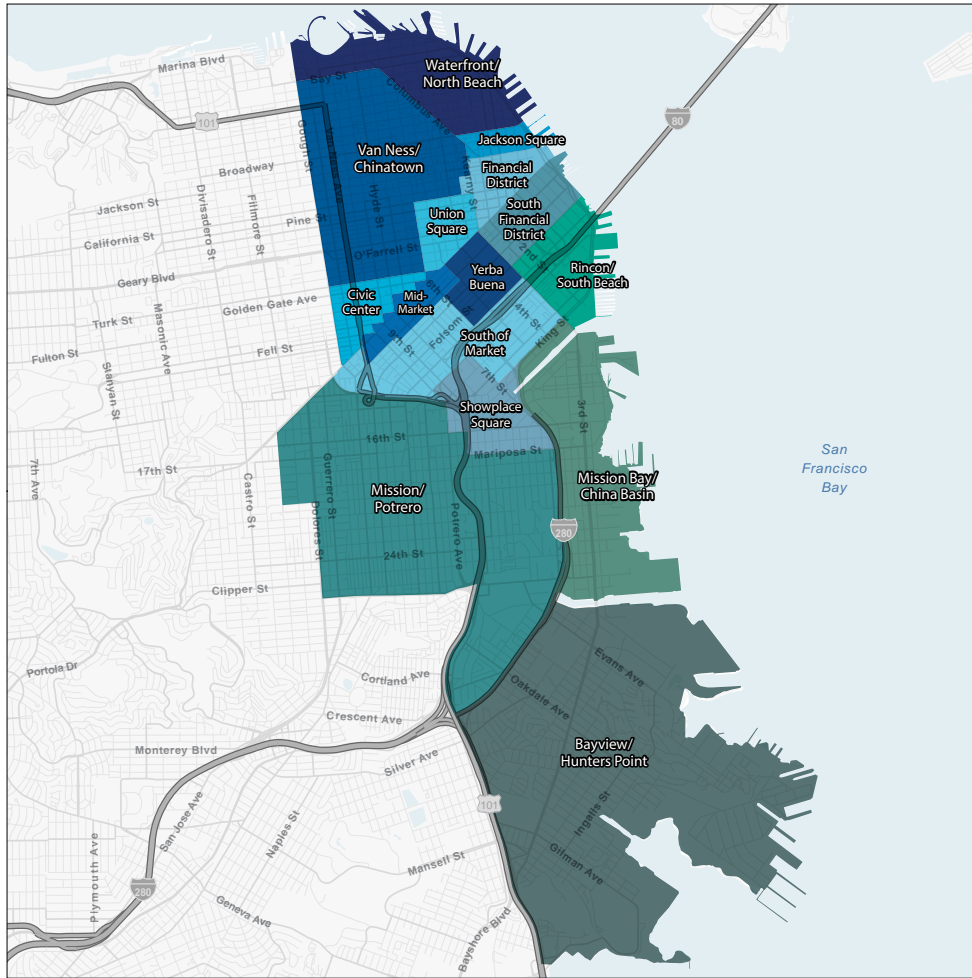


MARKET INDICATORS

Classes A | Q2 2024

SUBMARKET	INVENTORY SF	DIRECT VACANT SF	DIRECT VACANCY RATE	OVERALL VACANCY RATE	UNDER CONSTRUCTION SF	NET ABSORPTION SF	Y-O-Y NET ABSORPTION SF	ASKING RENT PSF
Bayview/Hunters Point	219,093	67,877	31.0%	32.3%	0	8,107	67,877	\$33.00
Civic Center	0	0	0.0%	0.0%	0	0	0	\$0.00
Financial District	22,834,936	5,034,965	22.0%	28.1%	0	61,142	(494,634)	\$50.05
Jackson Square	323,347	110,857	34.3%	34.3%	0	11,443	9,002	\$45.00
MidMarket	1,419,587	40,887	3.0%	3.0%	0	0	88,748	\$28.00
Mission Bay/China Basin	4,309,825	712,266	16.5%	27.4%	0	(65,719)	471,899	\$37.00
Mission/Potrero	0	0	0.0%	0.0%	0	0	0	\$0.00
Rincon/South Beach	2,722,865	384,974	14.1%	19.5%	0	0	3,683	\$49.97
Showplace Square	1,338,103	340,964	25.3%	23.7%	0	0	0	\$32.00
South Financial District	24,625,606	5,226,459	21.2%	29.8%	0	(275,902)	(1,361,673)	\$54.52
South of Market	519,213	51,067	9.8%	9.8%	0	(25,000)	(609)	\$37.00
Union Square	354,450	140,162	31.9%	31.9%	0	(11,932)	(11,910)	\$39.00
Van Ness/Chinatown	120,000	28,675	23.9%	26.8%	0	(2,204)	(11,573)	\$33.25
Waterfront/North Beach	767,547	188,123	24.5%	28.1%	0	9,913	59,285	\$39.00
Yerba Buena	1,756,065	1,116,095	63.8%	79.0%	0	30,266	(79,667)	\$38.62
<b>TOTAL</b>	<b>61,310,637</b>	<b>13,443,371</b>	<b>21.9%</b>	<b>29.6%</b>	<b>0</b>	<b>(259,886)</b>	<b>(2,339,124)</b>	<b>\$51.57</b>

Source: CoStar, Transwestern



### RESEARCH METHODOLOGY

The information in this report is the result of a compilation of information on office properties located in the Phoenix metropolitan area. This report includes single tenant, multi-tenant and owner-user properties 10,000 SF and larger, excluding condo and medical office facilities and those properties owned and occupied by a government agency.

### FOR MORE INFORMATION

[Tyler Hill](#)

Researcher  
tyler.hill@transwestern.com  
415 489 1750

### ABOUT TRANSWESTERN

The privately held Transwestern companies have been delivering a higher level of personalized service and innovative real estate solutions since 1978. An integrated approach formed from fresh ideas drives value for clients across commercial real estate services, development, investment management and opportunistic programs for high-net-worth investors. The firm operates through 30+ U.S. offices and global alliances with BNP Paribas Real Estate and Devencore. Learn more at [transwestern.com](https://transwestern.com) and [@Transwestern](https://twitter.com/Transwestern).