

SAN FRANCISCO OFFICE MARKET

Q3 2024



TRENDLINES

	Q3 2024	Q3 2023	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
Unemployment Rate	3.9	3.9	↔	4.8	↓
Net Absorption (Thousands SF)	(564.3)	(1779.9)	↓	(780.8)	↑
Overall Vacancy Rate	35.5%	31.5%	↑	21.6%	↓
Overall Vacant Sf (MSF)	24.6	21.3	↑	13.8	↓
Under Construction (MSF)	0.3	0.2	↑	1.1	↑
Asking Rent (PSF)	\$49.34	\$52.12	↓	\$61.48	↑
Sales Volume (Millions)	\$188.6	\$178	↑	\$599.4	↔

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

OFFICE MARKET OVERVIEW

New Lease Trend Emerges As Market Stabilizes

In the 3rd quarter of 2024, recent trends and developments in the commercial real estate market have shaped the landscape and influenced San Francisco's future as new tenancies emerge in the sector. Only one deal was signed in Q3 with total square footage larger than 100,000; all other deals were below 50,000 square feet. In comparison, the top five deals of Q2 included four over 100,000 and one at 75,000 square feet. This shift reflects broader economic uncertainties and changing workforce dynamics, prompting tenants to reassess their space requirements. As hybrid work becomes the norm, many companies are opting for smaller, more flexible spaces that can adapt to their evolving needs. While the federal rate cut of 50 basis points was a step in the right direction, high interest rates and inflation are influencing tenants to prioritize cost-effective solutions. Conversely, there is progress toward the back-to-work movement, as Amazon announced that all employees will be required to attend the office five days a week starting in 2025. This decision is reflected by One Medical, an Amazon-owned company, removing its sublease listing from the market around the same time. However, hesitancy towards this



OFFICE MARKET OVERVIEW (CONT...)

movement should be noted, as 75% of the workforce conducts a hybrid work style.

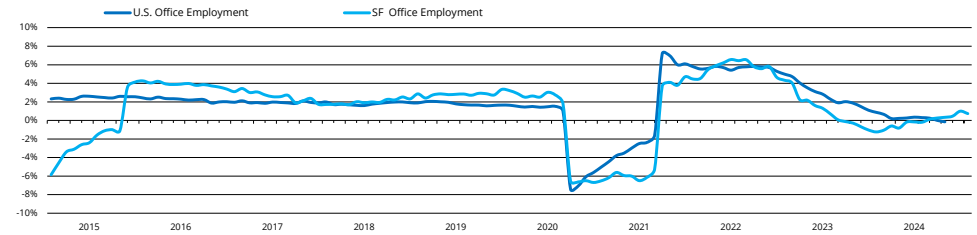
Overall vacancy for San Francisco has hit what is expected to be its peak at 35.5%. The high tenant activity this quarter suggests a potential stabilization in the market. And with buildings selling at a fraction of their previous value, this quarter's sales volume has been the highest year to date, \$188.5 million. This new ownership group has the advantage of a low-cost basis which allows them to offer lower rates, incentivizing tenants to lease space and bring businesses back to downtown.

ECONOMY

Regular Patterns Continue For San Francisco Economy

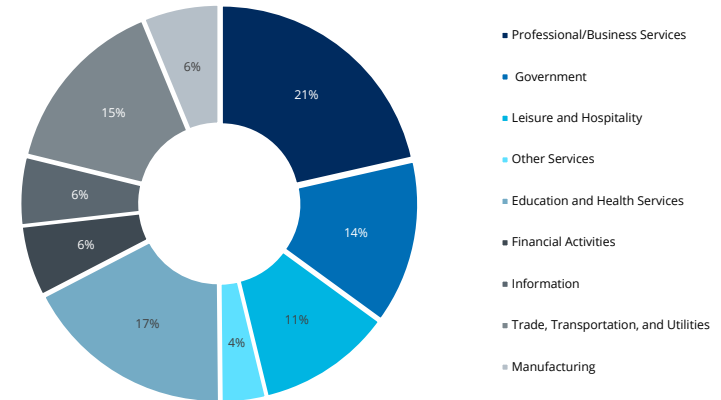
- The unemployment rate in the San Francisco metro area experienced a notable increase of 1% over the past quarter, rising to 4.1%. However, this fluctuation is not unusual and remains consistent with the 12-month average of 3.8%. A similar pattern was observed from Q2 to Q3 in 2023, when the rate rose from 3.2% to 4.1% before dropping back down to 3.1%. This trend indicates that the recent changes are likely not indicative of long-term shifts in the labor market.
- Carrying over from Q2, professional/business services and education/health care are still the top-producing categories when it comes to total employment in Q3 of 2024.
- Education and Health Services stands out as the leading sector for job growth, experiencing a significant increase of 5% year-over-year.

Y-O-Y CHANGE IN OFFICE JOBS



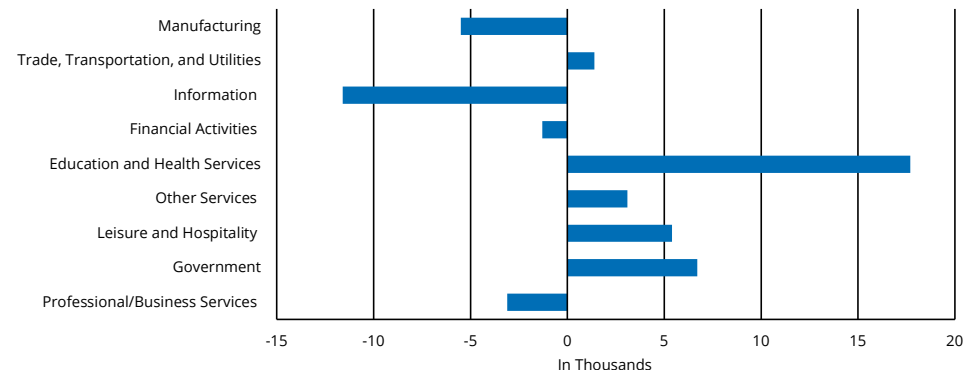
Source: Bureau of Labor Statistics, Transwestern

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

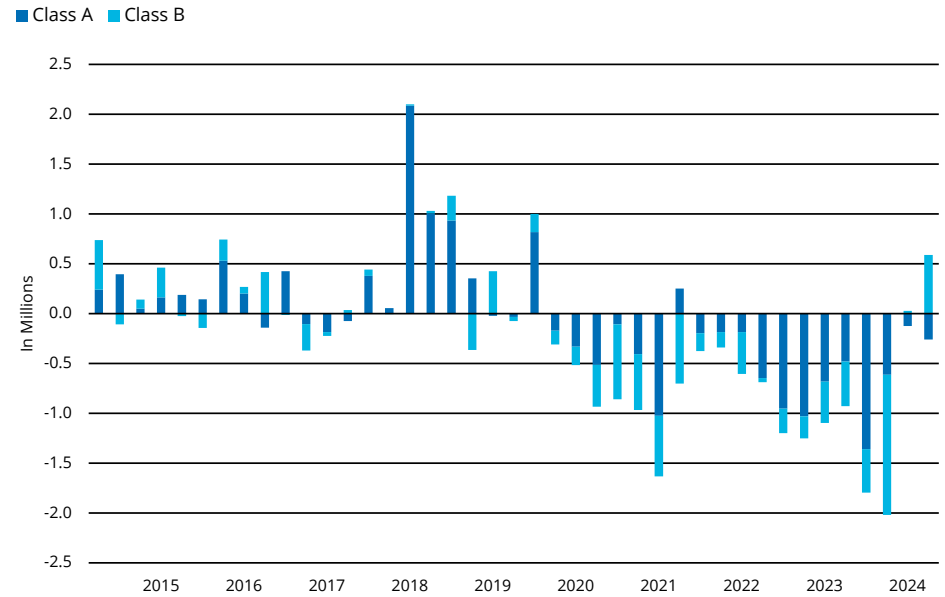


NET ABSORPTION

Net Absorption Regresses On A Year-To-Date Basis, Yet Remains Positive Year-Over-Year

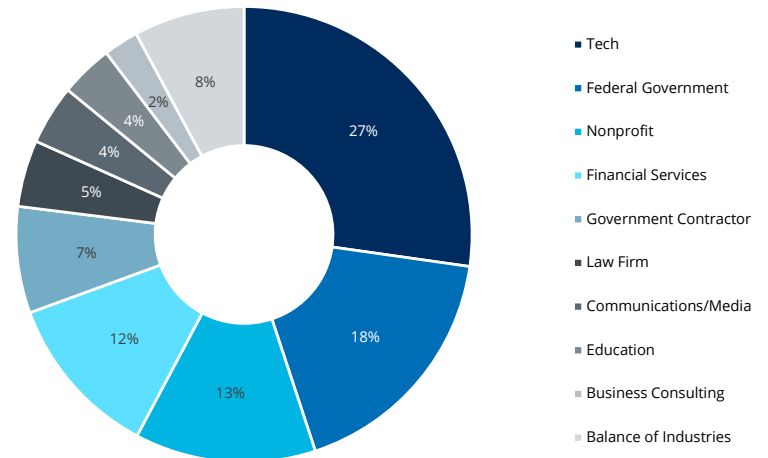
- Quarter 3 concluded with a negative net absorption of 564,278 square feet, breaking the positive trend of net absorption seen earlier in 2024. Q1 nearly achieved breakeven, with a total of -98,350 square feet. But Q2 marked a significant turnaround, delivering the first positive net absorption since 2019 with an increase of 207,000 square feet, primarily due to the top 4 deals of the quarter, Scale.AI, the City of San Francisco, Rippling, and Orrick Herrington all being over 100,000 square feet. While Q3 reflects a setback, it is important to note that there is still a year-over-year increase of 35% from the negative 1.8 million net absorption in 2023, an increase partially attributable to the signing at 550 A Terry Francois Blvd by OpenAI, a 306,000 square foot deal.
- As a continued trend of growth from the previous quarter, the North and South Financial District submarkets stand out as two of the top performers. The North Financial District recorded an impressive 946,000 square feet of positive year-over-year net absorption, while the South Financial District saw a gain of 60,000 square feet year-over-year.
- In terms of Q3 performance alone, the Mission Bay/China Basin submarket was the only area to exhibit a significant positive net absorption, totaling 307,600 square feet. An effect felt from the Open.AI deal. All other submarkets experienced negative net absorption during Q3, with the exception of the Mid-Market and Van Ness areas, which had a combined total net absorption of 26,250 square feet.

NET ABSORPTION BY CLASS



Source: CoStar, Transwestern

SHARE OF LEASING ACTIVITY BY INDUSTRY Q2 2024



Source: CoStar, Transwestern

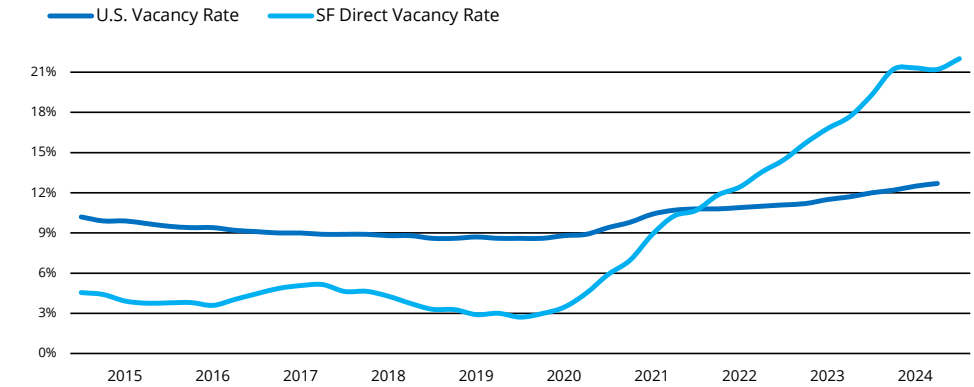


VACANCY

Increased Vacancy Rate

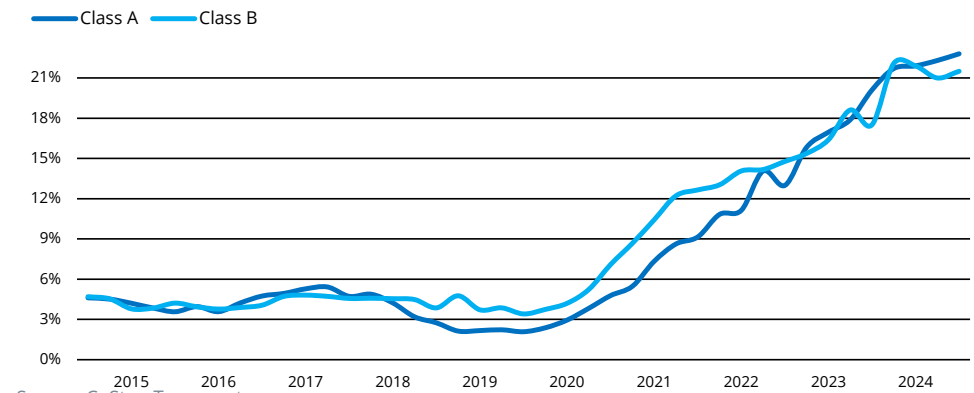
- In 19 consecutive quarters, San Francisco’s vacancy rate has gradually risen, reaching a new high this quarter of 35.5%. Many experts believe this represents the peak, anticipating a subsequent decline. With both deal count and activity increasing this year, the combination of these factors is expected to lead to a reduction in vacancy rates moving forward.
- The leading submarket contributors to the high vacancy rate were Yerba Buena at 42.6% (2.1 million square feet available), Waterfront/North Beach at 31.3% (1.5 million square feet available), Showplace Square at 30% (2.1 million square feet available), and the Financial District at 29.4% (10.7 million square available).
- Class A properties reported an overall vacancy rate of 29%, with direct vacancy at 24.6% and sublet vacancy at just 4.4%. The South of Market area, specifically the area between Market and King St, and 13th and 3rd St, significantly contributed to this rate. Exhibiting a vacancy rate of 61.7%, while Mid-Market had a much lower contribution at 7.8%. Class B properties had a total vacancy rate of 25.4%. In the same submarkets, South of Market recorded a vacancy rate of 26.6%, and Mid-Market had a rate of 34.7%. This highlights a substantial discrepancy in vacancy rates between Class A and Class B buildings across these areas, emphasizing the varying demand for different property classes.

OVERALL VACANCY RATE



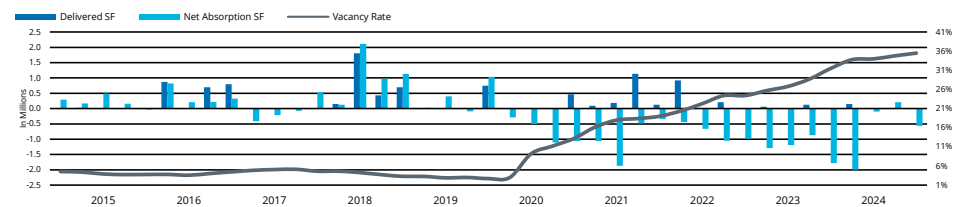
Source: CoStar, Transwestern

OVERALL VACANCY RATE BY CLASS



Source: CoStar, Transwestern

DELIVERY IMPACT ON KEY INDICATORS



Source: CoStar, Transwestern

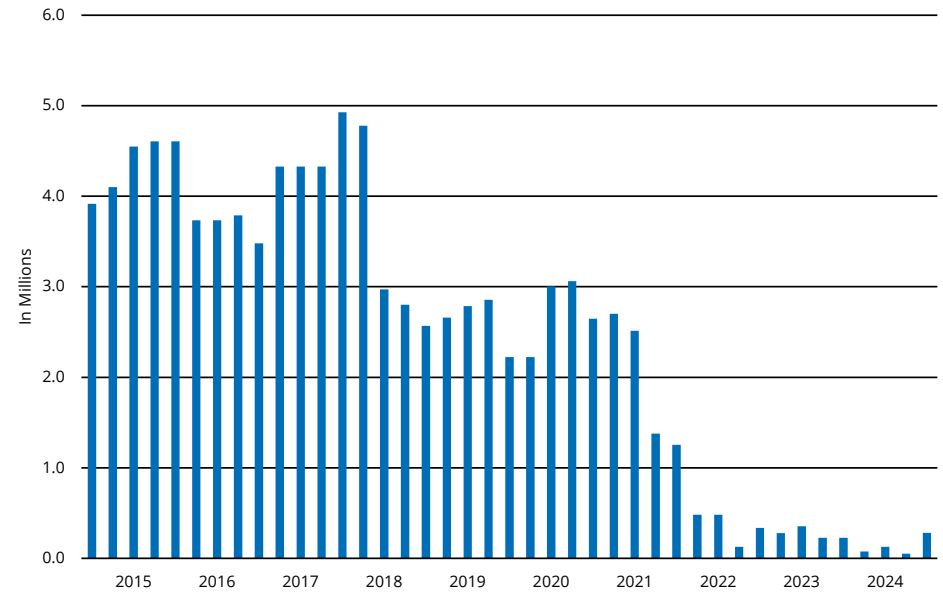


UNDER CONSTRUCTION

New Construction Starts In Mission Bay

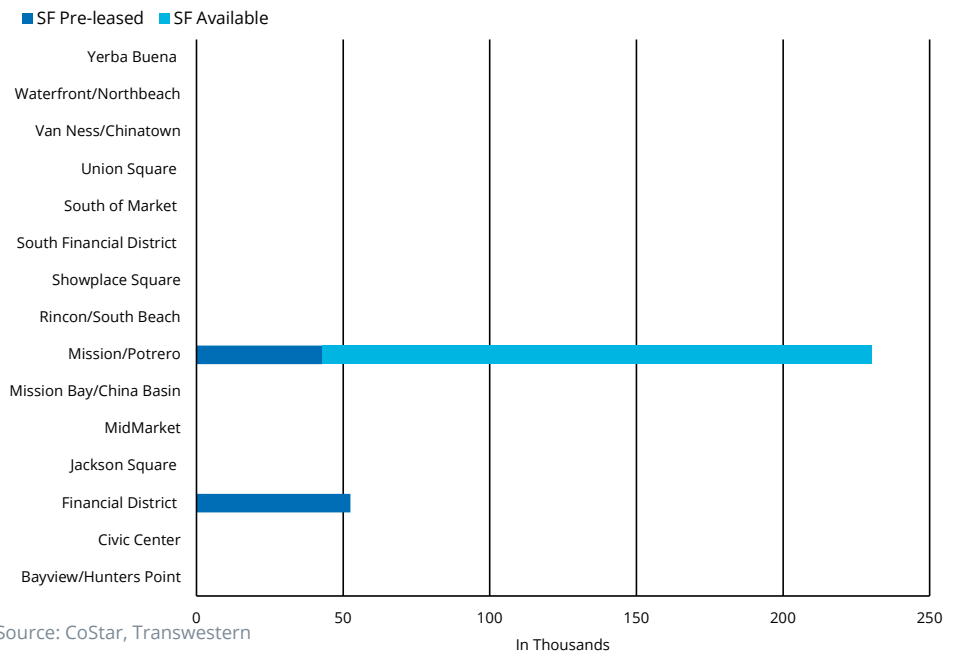
- San Francisco is navigating through a transitional period with uncertainty about the direction of the future. Given the current dynamics of suppressed market rents and relatively anemic tenant demand, speculative development does not make sense for the foreseeable future.
- In the Financial District, at the address 545 Sansome St. 52,481 square feet of construction is underway that is completely pre-leased. The property is being developed by SHVO and will be completed in 2026. The Mission/Potrero submarket has 230,000 square feet under construction at the address 1850 Bryant St. with 42,780 of it being pre-leased. The property is being developed by Common Ground Urban Development LLC and will be delivered in 2028.

UNDER CONSTRUCTION



Source: CoStar, Transwestern

UNDER CONSTRUCTION BY SUBMARKET



Source: CoStar, Transwestern

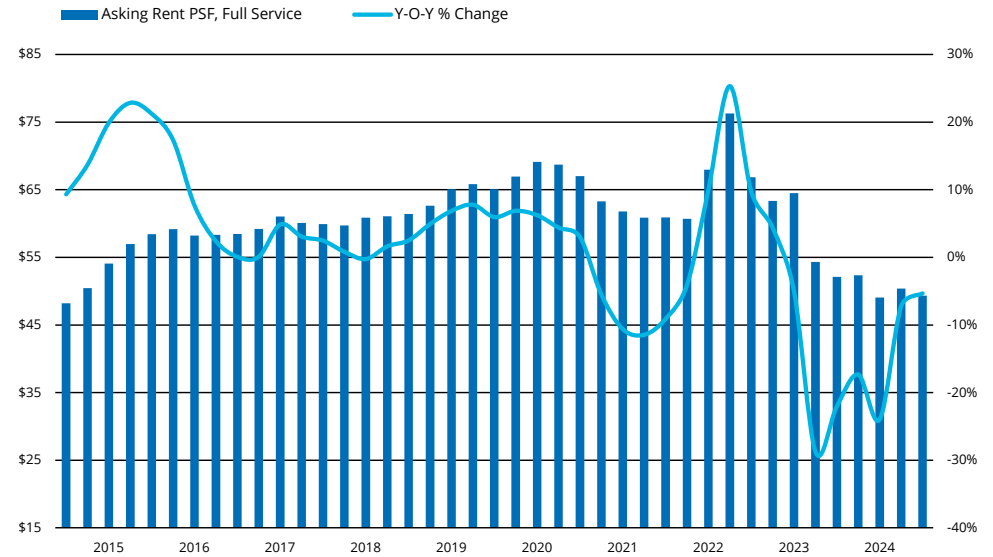


LEASING AND RENTAL RATES

Unstable Rents

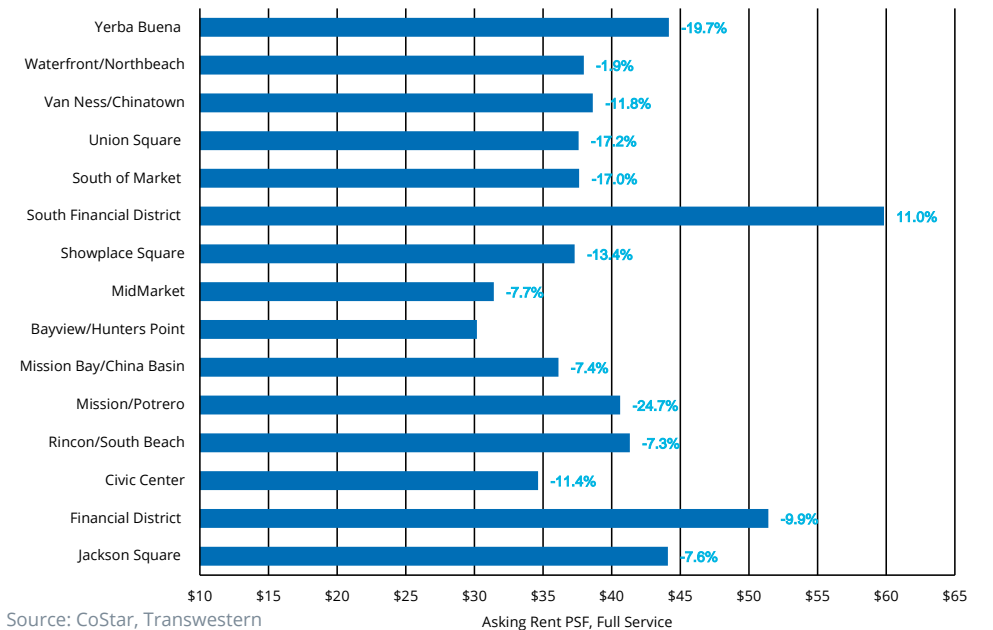
- The average full-service asking rent ticked down this quarter going from \$50 per square foot to \$49. Over the past 12 months, the average asking rent has stayed ultimately the same, continuing to hover around \$50 per square foot.
- Class A asking rents currently average \$56 per square foot, significantly higher than the overall market average. Over the past 12 months, the asking rate has remained around this level. However, looking back to 2023, the average was \$70 per square foot, and in 2022, it reached \$80. This indicates a consistent downward trend in asking rates over the past few years.
- With the exception of the South Financial District, all submarkets have seen a decline in asking rents year-over-year. The most significant year-over-year drop occurred in Yerba Buena, where rents plummeted from \$55 to \$44 per square foot, a 20% decrease. In contrast, the South Financial District, where activity has been concentrated this quarter, experienced an 11% increase, bringing rents to \$59.83 per square foot.

ASKING RENT



Source: CoStar, Transwestern

ASKING RENTS BY SUBMARKET AND Y-O-Y GROWTH



Source: CoStar, Transwestern

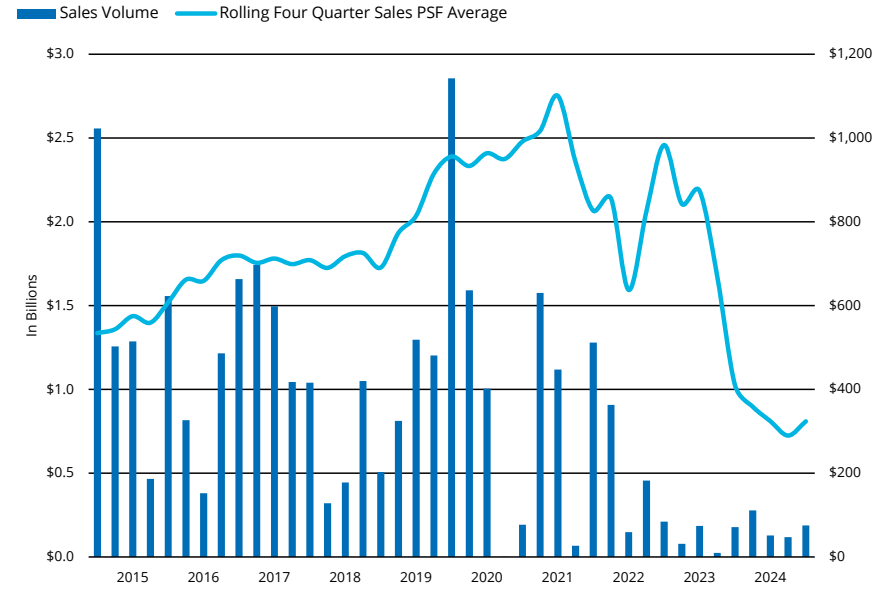


SALES

Improving Sales Volume

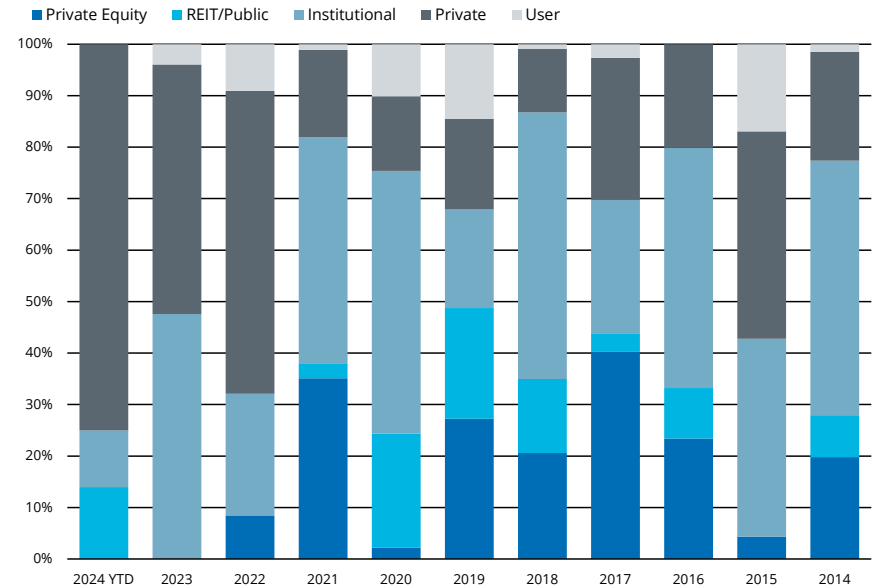
- By historical standards, this quarter's sales volume remains sluggish, yet it was an overall improvement compared to the two previous quarters of 2024. Buyers are starting to capitalize on favorable market conditions, purchasing properties at significant discounts from their original prices. This trend suggests that investors are becoming more strategic, focusing on opportunities with strong potential for appreciation as the market stabilizes. Additionally, the increased interest in distressed assets reflects a growing confidence that the worst of the economic downturn may be behind us. As competition among buyers begins to heat up, we may see a gradual increase in sales activity in the upcoming quarters, driven by a combination of lower interest rates and improved economic indicators.

SALES VOLUME



Source: CoStar, Transwestern

BUYER CAPITAL COMPOSITION



Source: CoStar, Transwestern



NOTABLE LEASES

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
OpenAI	550 Terry A Francois Blvd	Mission Bay/ChinaBasin	New	306,000
Delta Dental	560 Mission St	South Financial District	Renewal	45,132
Sierra	235 2 nd St	South Financial District	New	41,104
Snap Inc	1160 Battery St	Waterfront/North Beach	New	37,675
Volleygames	760 Market St	Union Square	Sublease	24,723

Source: CoStar, Transwestern

NOTABLE SALES

ADDRESS	SUBMARKET	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
795 Folsom St	Yerba Buena	\$48,300,000	187,202	\$258	Fountainhead Hotels	ASB Capital Management
979-989 Market St	MidMarket	\$13,500,000	117,000	\$115	BH Properties, LLC	ASB Capital Management
631 Howard St	South Financial District	\$39,000,000	108,786	\$359	Flynn Properties, Inc	Invesco Advisers, Inc
99 Rhode Island St	Showplace Square	\$23,500,000	63,780	\$368	Westwood U.S. Inc	A10 Capital

Source: CoStar, Transwestern

= Transwestern deal



MARKET INDICATORS

All Classes of Space | Q3 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	82,469	14.6%	15.1%	0	(12,237)	(15,633)	\$30.18
Civic Center	965,622	196,995	20.4%	20.7%	0	(1,421)	(10,087)	\$34.63
Financial District	30,554,583	7,798,349	27.2%	29.4%	52,481	(171,268)	496,794	\$51.41
Jackson Square	2,527,377	380,887	15.1%	17.9%	0	(962)	(21,796)	\$44.09
MidMarket	6,156,246	1,449,631	19.3%	23.8%	0	24,361	63,571	\$31.41
Mission Bay/China Basin	4,622,411	244,212	21.4%	25.5%	0	307,585	613,616	\$36.12
Mission/Potrero	3,181,501	241,784	8.1%	10.0%	225,733	(2,428)	(10,825)	\$40.61
Rincon/South Beach	7,309,129	1,315,949	18.7%	25.7%	0	(74,829)	(19,105)	\$41.32
Showplace Square	4,952,837	1,071,571	20.3%	30.0%	0	(36,062)	19,633	\$31.14
South Financial District	30,288,579	6,510,624	22.0%	28.1%	0	(434,142)	59,021	\$59.83
South of Market	4,923,382	1,105,187	25.5%	27.7%	0	(71,392)	27,583	\$37.63
Union Square	5,212,150	1,118,873	22.1%	25.4%	0	(49,155)	(105,639)	\$37.58
Van Ness/Chinatown	1,957,112	160,782	10.8%	11.6%	0	1,889	22,006	\$38.63
Waterfront/North Beach	4,141,083	1,114,424	27.5%	31.3%	0	(17,790)	74,755	\$37.96
Yerba Buena	4,326,137	1,538,757	35.7%	42.6%	0	(26,427)	17,560	\$44.16
TOTAL	111,665,680	24,560,928	22.0%	35.5%	278,214	(564,278)	1,211,427	\$49.34

Source: CoStar, Transwestern

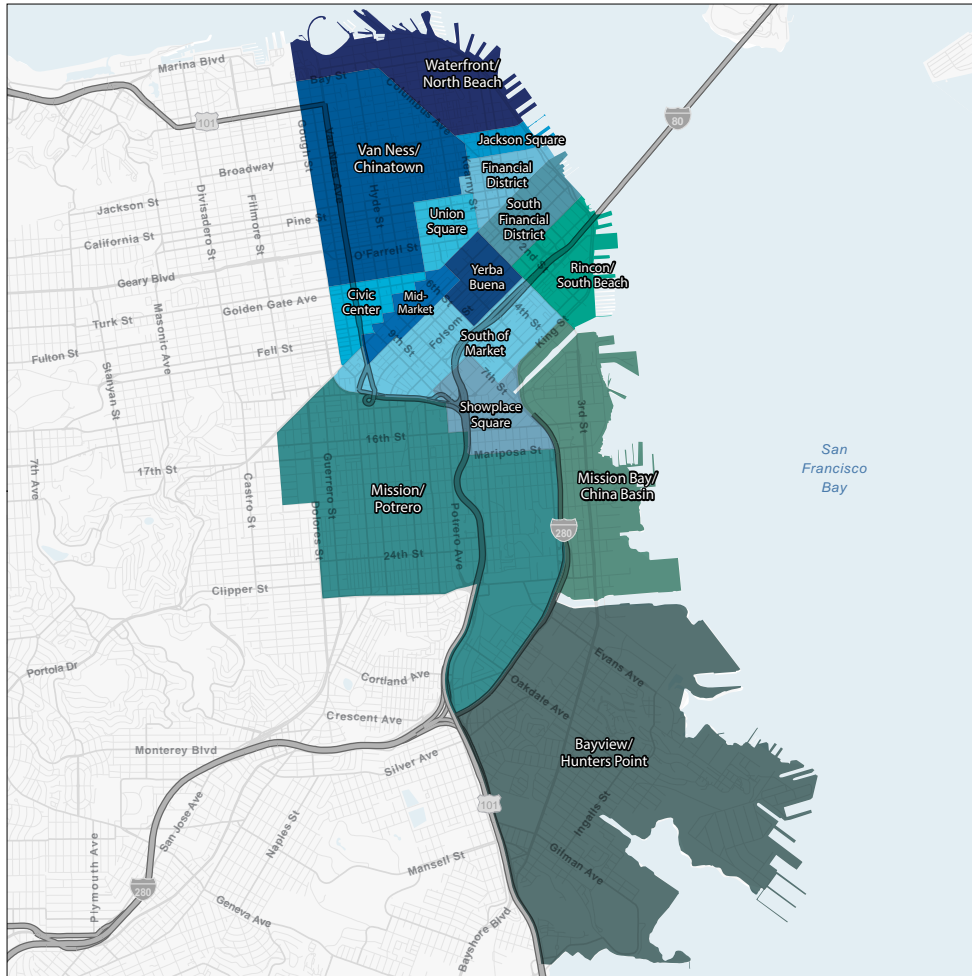


MARKET INDICATORS

Classes A | Q3 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	80,414	51.7%	51.7%	0	(12,537)	33,845	\$30.00
Civic Center	--	--	--	--	--	--	--	--
Financial District	22,834,936	5,195,877	27.2%	29.7%	52,481	(160,912)	367,559	\$54.56
Jackson Square	323,347	110,277	13.9%	13.9%	0	580	(2,405)	\$50.00
MidMarket	1,419,587	40,887	6.9%	7.8%	0	0	0	\$60.00
Mission Bay/China Basin	4,309,825	404,681	23.7%	28.2%	0	307,585	615,552	\$59.00
Mission/Potrero	--	--	--	--	225,733	--	--	--
Rincon/South Beach	2,722,865	379,840	17.0%	21.4%	0	5,134	68,262	\$44.27
Showplace Square	1,338,103	340,964	21.6%	22.8%	0	0	0	\$55.42
South Financial District	24,625,606	5,661,618	22.9%	30.2%	0	(435,159)	(43,252)	\$61.73
South of Market	830,184	344,238	61.7%	61.7%	0	0	(272)	\$46.29
Union Square	354,450	140,162	29.3%	30.2%	0	(7,973)	(17,178)	\$39.00
Van Ness/Chinatown	120,000	31,113	15.6%	15.8%	0	(2,438)	(18,895)	\$47.45
Waterfront/North Beach	767,547	188,123	30.6%	30.6%	0	0	2,057	\$47.32
Yerba Buena	1,756,065	1,116,095	51.1%	59.2%	0	0	(110,237)	\$49.97
TOTAL	61,621,608	14,034,289	28.7%	34.2%	278,214	(315,745)	(1,810,767)	\$43.78

Source: CoStar, Transwestern



RESEARCH METHODOLOGY

The information in this report is the result of a compilation of information on office properties located in San Francisco. 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

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