

SAN FRANCISCO OFFICE MARKET

Q4 2024



TRENDLINES

	Q4 2024	Q4 2023	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
Unemployment Rate	3.7	4.1	↓	4.8	↔
Net Absorption (Thousands SF)	257.6	(1927.0)	↑	(1,053.2)	↑
Overall Vacancy Rate	36.1%	34.0%	↑	23.1%	↓
Overall Vacant Sf (MSF)	26.4	24.0	↑	15.2	↓
Under Construction (MSF)	0.0	0.1	↔	1.0	↔
Asking Rent (PSF)	\$48.07	\$52.36	↓	\$60.67	↑
Sales Volume (Millions)	\$143.6	\$278	↓	\$472.5	↔

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

OFFICE MARKET OVERVIEW

2024 Ends Strong with Positive Momentum from Quarter 4

The fourth quarter marked a shift in the San Francisco market, with positive net absorption recorded for only the second quarter since the pandemic began. Citywide net absorption was 257,571 square feet. This trend signals the growing tenant activity, especially in smaller spaces, even as overall market conditions remain volatile. While certain submarkets, such as Yerba Buena and Mid-Market, have faced challenges with negative overall trends, other submarkets such as the Financial District, North Waterfront, and South Beach submarkets have experienced year-over-year progression across multiple categories.

Rents have seen a decline across most sectors, with Class A rents holding steady above the overall market average. Sales volume, meanwhile, has fluctuated throughout the year, with Q4 experiencing a significant decrease from the previous quarter, yet still showing a more stable performance than the sub-\$100 million sales typical of post-pandemic quarters. Despite these challenges, 2024 marked a pivotal year in San Francisco's recovery with the widespread consensus being that we are coming close to the market making the transformative shift to full recovery.



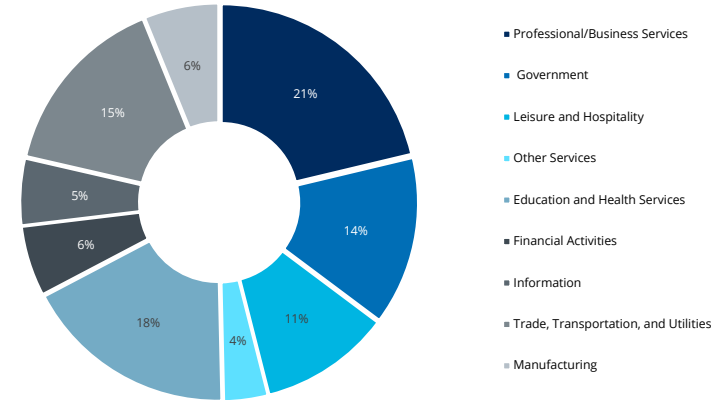
ECONOMY

San Francisco Economy Remains Consistent

- The unemployment rate in the San Francisco metro area decreased by 0.5% over the past quarter, dropping from 4.1% to 3.7%. This improvement brings the rate closer to the yearly average of 3.8%, recovering from the previous quarter's spike of a 1% increase.
- In San Francisco, education and health services remain one of the top industries, consistently showing yearly gains in total employment. Over the past six months, the industry achieved a 7% increase in total employment
- Professional and business services employment remained unchanged from Q3 to Q4, maintaining its position as the second-largest industry by employment in the San Francisco market.

SHARE OF EMPLOYEES BY INDUSTRY

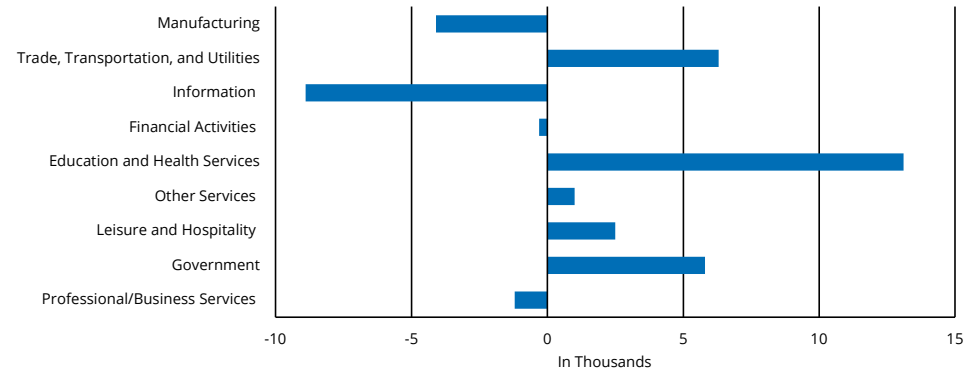
San Francisco | February 2024



Source: Bureau of Labor Statistics, Transwestern

Y-O-Y CHANGE IN JOBS BY INDUSTRY

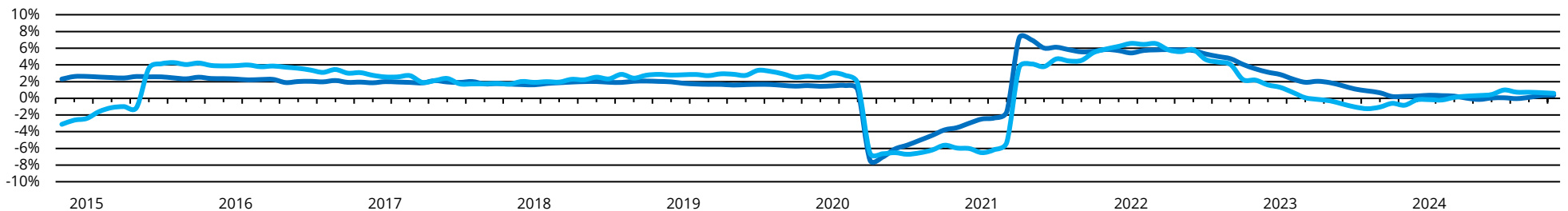
San Francisco



Source: Bureau of Labor Statistics, Transwestern

Y-O-Y CHANGE IN OFFICE JOBS

— U.S. Office Employment — SF Office Employment



Source: Bureau of Labor Statistics, Transwestern

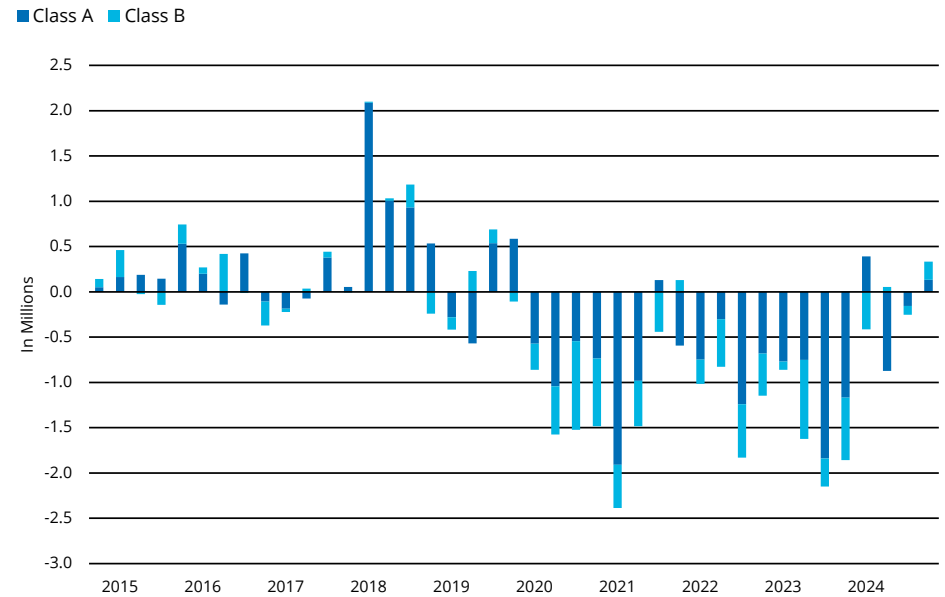


NET ABSORPTION

Positive Net Absorption Recorded for Second Time Post Pandemic

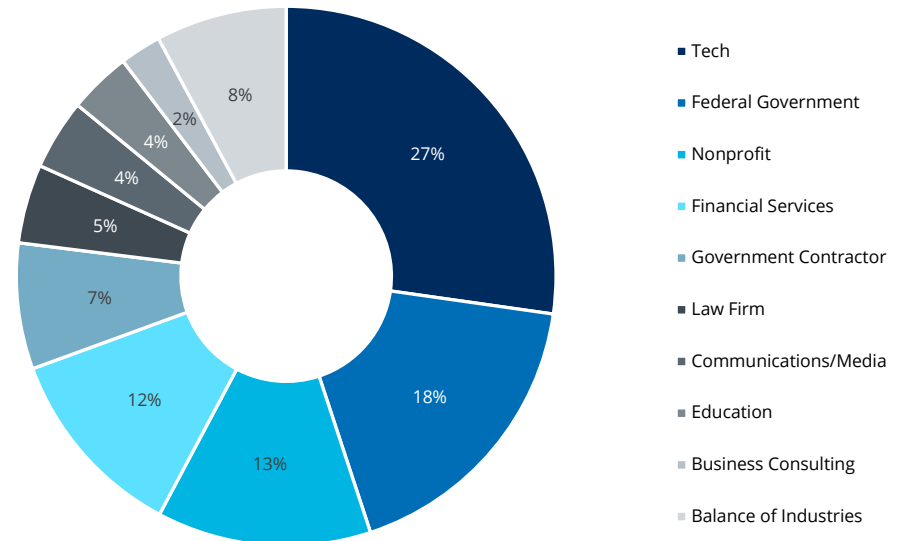
- With positive figure of 257,571, Q4 marks only the second time the market has seen positive net absorption since the start of the pandemic in Q1 2020. While the previous Q2 occurrence reflected a similar net gain due to a few large square footage deals, this quarter’s absorption highlights more broadly based tenant activity. Shifting tenant demand has reshaped the San Francisco office market, which is now favoring smaller square footage deals. The Notion lease at 685 Market St. remains the only lease signed for over 100,000 square feet this quarter, indicating that the overall tenant activity is outweighing the size of individual deals.
- On a quarterly basis, North Waterfront and South Beach submarkets have emerged as the new focal point for positive net absorption, with a combined total of 234,801 square feet recorded. Meanwhile, the southern core of downtown, spanning the South Financial District through market-wide, has experienced a combined negative net absorption of 135,025 square feet.
- As for net absorption on an annual basis, only 5 out of the 15 submarkets recorded a negative figure, with the South Financial District bearing the brunt, showing a negative total of 936,391 square feet. Concluding with a market total negative year-over-year net absorption of 198,053 square feet being recorded

NET ABSORPTION BY CLASS



Source: CoStar, Transwestern

SHARE OF LEASING ACTIVITY BY INDUSTRY Q4 2024



Source: CoStar, Transwestern

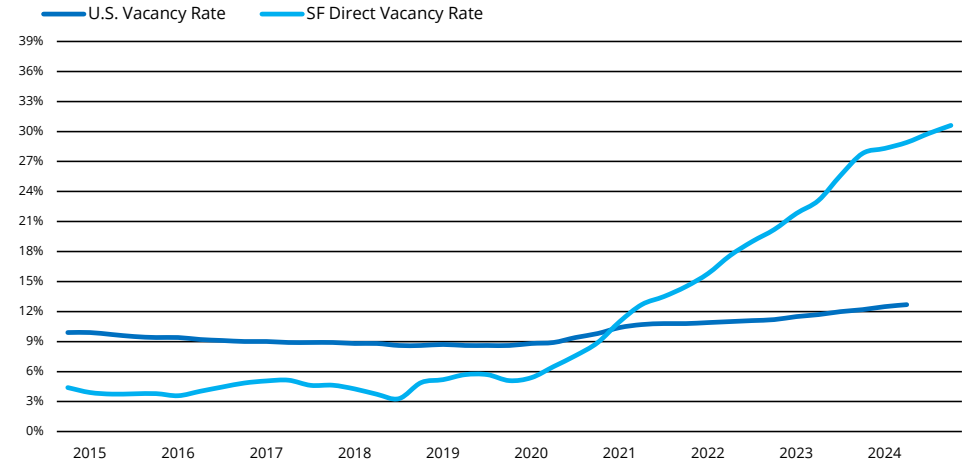


VACANCY

Increased Vacancy Rate

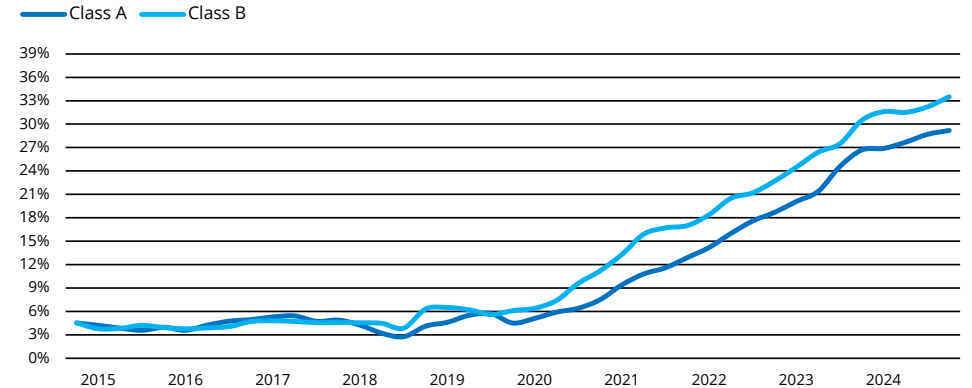
- In 20 consecutive quarters, San Francisco’s citywide vacancy rate has gradually risen, reaching a new high this quarter of 36.1%. Transwestern believes this represents the peak, anticipating a subsequent decline. With both deal count and activity increasing this year, the combination of these factors 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 45% (1.6 million square feet available), Waterfront/ North Beach at 32.7% (1.2 million square feet available), Mid-Market at 32.6% (1.7 million square feet available), and South of Market at 31.1% (1.3 million square available).
- Overall class A vacancy was recorded at 30.1%, the direct class A vacancy rate was recorded at 25.5%, and the sublet vacancy rate was recorded at 4.5%. Continuing the trends from the previous quarter, the traditional South of Market Area continues to take the brut totaling 32.5% vacancy rate. Dissecting the traditional South of Market Area, the Yerba Buena submarket stands out by bringing in a 63.1% vacancy rate.

OVERALL VACANCY RATE



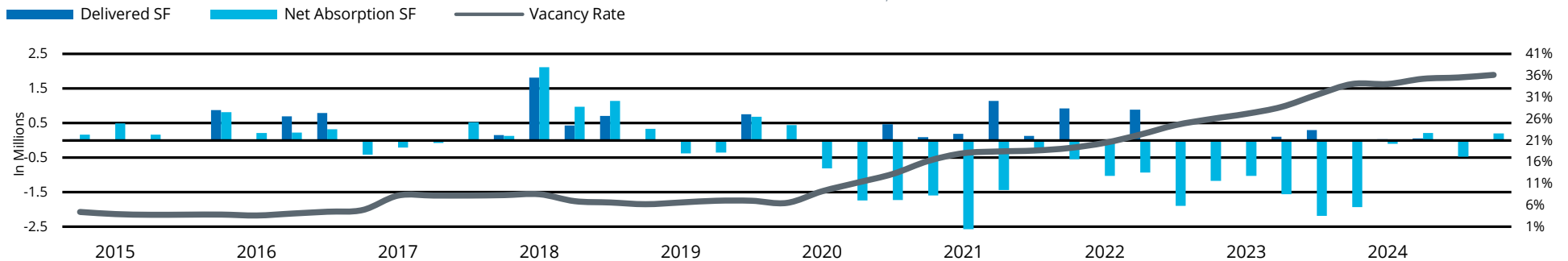
Source: CoStar, Transwestern

OVERALL VACANCY RATE BY CLASS



Source: CoStar, Transwestern

DELIVERY IMPACT ON KEY INDICATORS



Source: CoStar, Transwestern

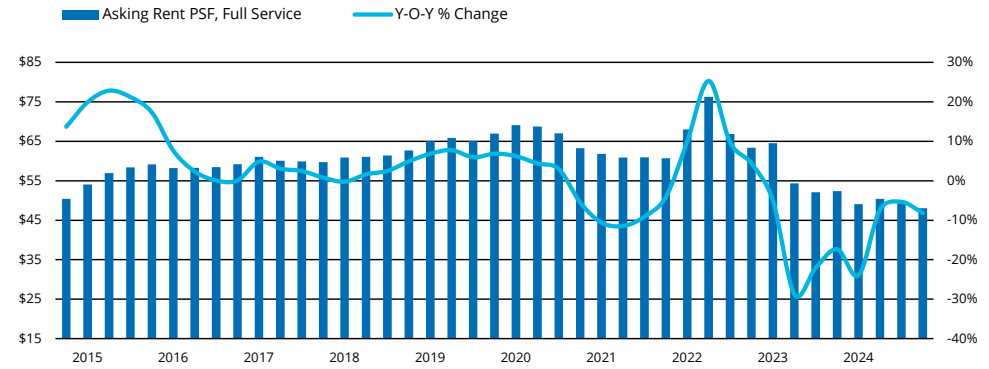


LEASING AND RENTAL RATES

Rents Ticking Down

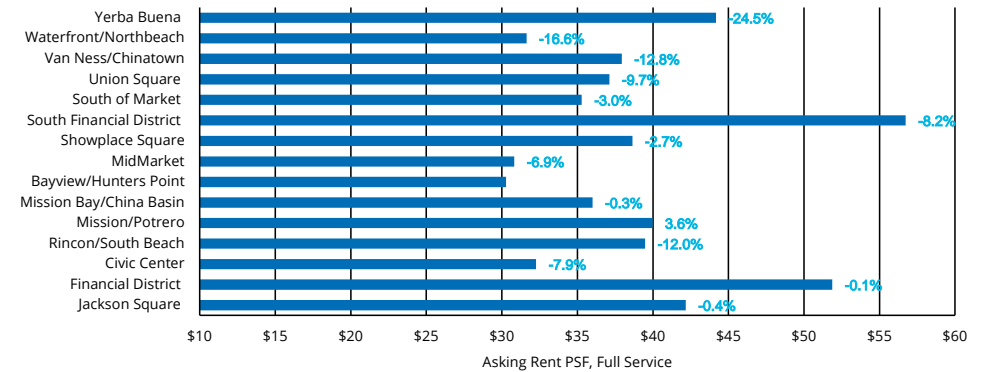
- For two consecutive quarters, the average full-service asking rent has continued to tick down. Over the past year after peaking at \$50 per square foot in the second quarter, it has since dropped by \$1 per quarter, now resting at \$48 per square foot.
- Average Class A full-service asking rents currently stand at \$55 per square foot, reflecting the same quarterly trend seen in the overall decline of class-wide rents. Class A rents have decreased by \$1 from the previous quarter’s average of \$56 per square foot. Despite this decline, the current quarterly average remains only slightly below the two-year average of \$58 per square foot.
- With the exception of the Mission/Potrero submarket, which saw a year-over-year increase of 3.6%, all other submarkets experienced a decline in asking rents over the past year, with Yerba Buena seeing the largest drop at 24.5%. On a positive note, the Financial District and Jackson Square—two submarkets with high tenant activity—recorded only a combined 0.5% decrease in asking rents.

ASKING RENT



Source: CoStar, Transwestern

ASKING RENTS BY SUBMARKET AND Y-O-Y GROWTH



Source: CoStar, Transwestern

NOTABLE LEASES

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
Notion	685 Market St	South Financial District	New	114,650
Wells Fargo Advisors	555 California St	Financial District	New	46,000
Checkr	One Montgomery Tower	Financial District	New	40,000
xAI	3180 18 th St	Mission/Potrero	New	37,105
Pacific Maritime Association	555 Market St	South Financial District	Renewal	20,760

TI = Transwestern deal | Source: CoStar, Transwestern

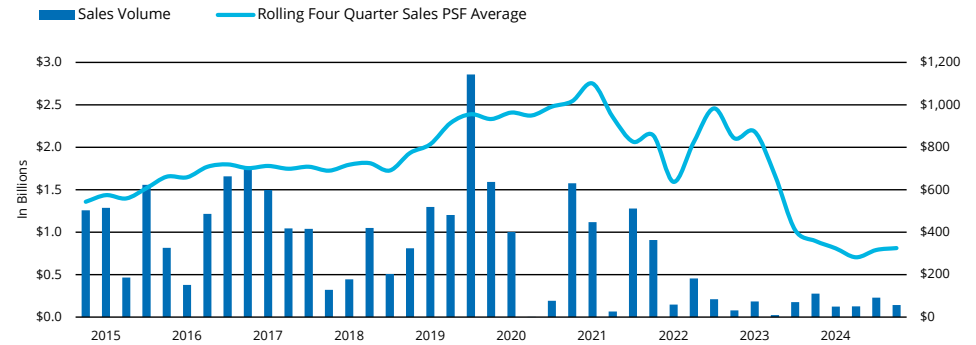


SALES

Volatile Sales Volume

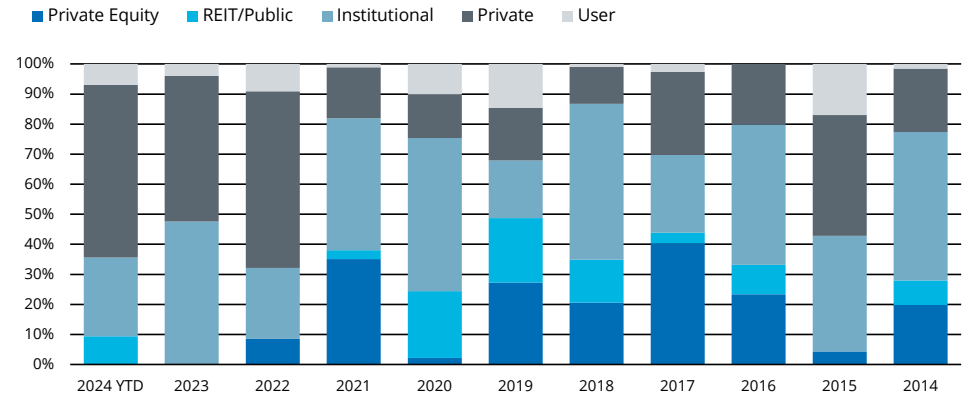
- Following the high sales volume recorded in the previous quarter, Q4 saw a significant drop, with total sales of \$143.6 million—a decrease of \$85.8 million from Q3 and the lowest recorded quarter in 2024. By historical standards, this is a discouraging figure compared to pre-pandemic levels, which regularly exceeded \$1 billion per quarter. However, in the post-pandemic era, quarters with less than \$100 million in sales have become common. That said, 2024 marks the first post-pandemic year without a sub-\$100 million quarter. However, 2024 sales volume of \$626 million is still down 6% from 2023, yet it is only 2% below the 5-year average of \$636.6 million. Conversely, with the 3 federal rate cuts that have cut rates by 100 bps, a surge in investment volume could be expected in 2025.

SALES VOLUME



Source: CoStar, Transwestern

BUYER CAPITAL COMPOSITION



Source: CoStar, Transwestern

NOTABLE SALES

ADDRESS	SUBMARKET	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
405 Howard St	South Financial District	\$159,900,430	521,555	\$612	Norges Bank Investment Management	Nuveen
888 Brannan St	Showplace Square	\$77,940,000	351,348	\$443	Norges Bank Investment Management	Nuveen
500 Washington St	Jackson Square	\$32,650,000	99,208	\$329	Big 500 Washington, LLC	Public Policy Institute of California
400-404 Montgomery St	North Financial District	\$25,750,000	86,230	\$299	REDCO Development	Intercontinental Real Estate Corporation



MARKET INDICATORS

All Classes of Space | Q4 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	564,135	97,428	17.3%	17.8%	0	(14,959)	(52,766)	\$30.28
Civic Center	952,288	244,414	25.7%	25.7%	0	15,853	12,641	\$32.27
Financial District	31,711,146	8,721,120	27.5%	30.0%	0	29,198	246,836	\$51.87
Jackson Square	2,958,179	471,772	15.9%	19.4%	0	(24,823)	21,365	\$42.17
MidMarket	6,317,842	1,705,452	27.0%	32.6%	0	(166,396)	26,680	\$30.82
Mission Bay/China Basin	5,312,626	980,464	18.5%	22.9%	0	306,409	592,996	\$36.00
Mission/Potrero	3,151,559	253,994	8.1%	8.7%	0	50,663	18,133	\$39.98
Rincon/South Beach	7,546,573	1,405,683	18.6%	23.6%	0	157,820	(34,500)	\$39.49
Showplace Square	4,810,986	914,294	19.0%	29.9%	0	9,107	63,468	\$38.64
South Financial District	30,801,200	7,204,266	23.3%	29.2%	0	(34,259)	(936,391)	\$56.73
South of Market	4,589,331	1,309,372	28.9%	31.1%	0	(100,766)	41,748	\$35.29
Union Square	5,518,794	1,303,267	23.6%	25.8%	0	(10,615)	(161,264)	\$37.12
Van Ness/Chinatown	2,781,723	311,690	11.2%	12.1%	0	16,171	3,228	\$37.94
Waterfront/North Beach	4,153,259	1,192,401	28.7%	32.7%	0	76,981	(126,990)	\$31.64
Yerba Buena	4,281,519	1,634,695	38.2%	45.0%	0	(52,813)	86,763	\$44.17
TOTAL	115,983,263	26,393,911	30.6%	36.1%	0	257,571	(198,053)	\$48.07

Source: CoStar, Transwestern

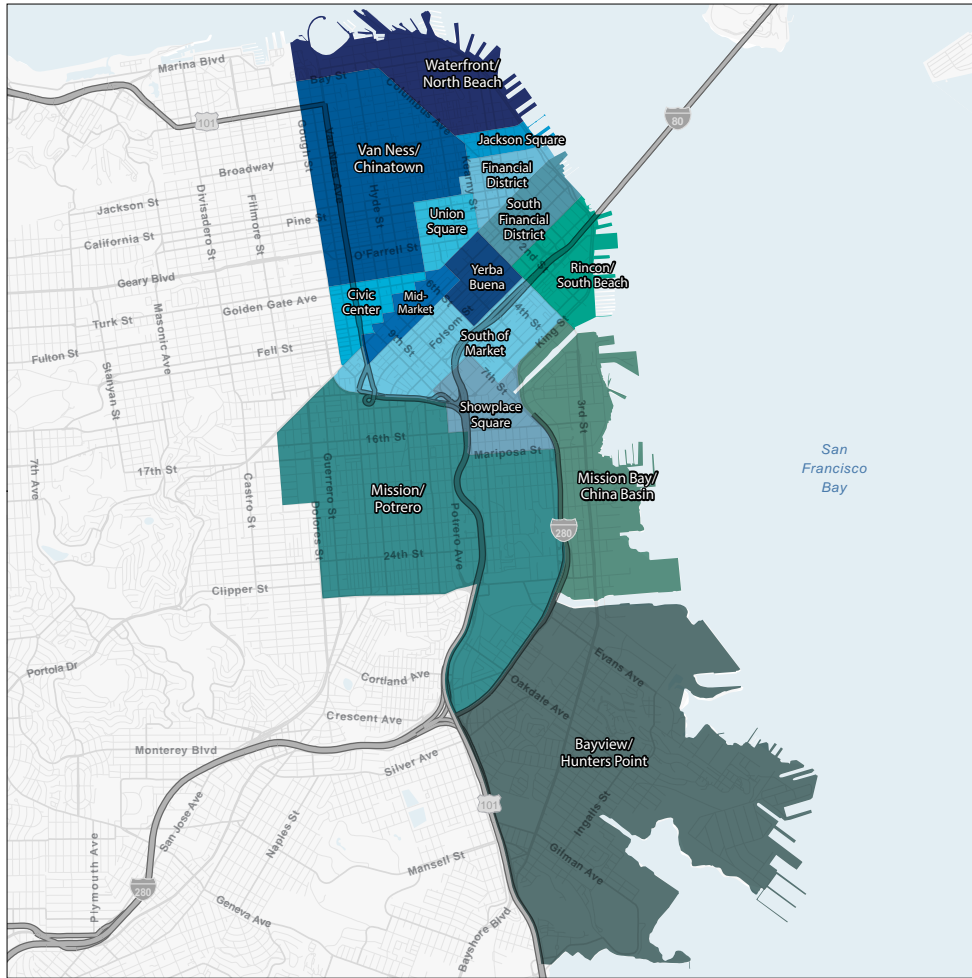


MARKET INDICATORS

Classes A | Q4 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	114,089	73,664	64.6%	64.6%	0	(14,720)	(46,309)	\$32.28
Civic Center	--	--	--	--	--	--	--	--
Financial District	24,671,761	6,498,642	26.3%	28.8%	0	(82,137)	106,315	\$53.10
Jackson Square	129,208	19,168	14.8%	14.8%	0	--	328	\$60.00
MidMarket	1,871,717	211,648	11.3%	12.7%	0	(1,148)	93,423	\$38.67
Mission Bay/China Basin	5,000,040	971,997	19.4%	24.2%	0	376,791	595,275	\$36.00
Mission/Potrero	--	--	--	--	--	--	--	--
Rincon/South Beach	3,080,409	607,438	19.7%	23.3%	0	29,454	80,158	\$44.00
Showplace Square	1,179,074	239,600	20.3%	21.4%	0	6,500	(51,820)	\$39.00
South Financial District	25,230,227	6,051,379	24.0%	31.1%	0	11,632	(817,162)	\$58.64
South of Market	425,519	274,578	88.0%	88.0%	0	--	(25,000)	\$36.00
Union Square	694,291	226,314	32.6%	33.5%	0	(31,011)	(47,503)	\$35.31
Van Ness/Chinatown	576,389	72,340	12.6%	12.7%	0	17,757	(3,243)	\$54.86
Waterfront/North Beach	752,955	232,188	28.3%	28.3%	0	17,188	(35,961)	\$34.00
Yerba Buena	2,441,118	1,339,645	54.9%	63.1%	0	(35,866)	(155,023)	\$46.36
TOTAL	66,166,797	16,899,567	25.5%	30.1%	0	294,440	(306,522)	\$55.00

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

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 Devcore. Learn more at transwestern.com and [@Transwestern](https://twitter.com/Transwestern).