

## Office Q1 2024

	YoY Chg	12-Mo. Forecast
<b>33.9%</b> Vacancy Rate	▲	▲
<b>-1.5M</b> Net Absorption, SF	▲	▲
<b>\$69.22</b> Asking Rent, PSF	▼	▼

(Overall, All Property Classes)

### ECONOMIC INDICATORS Q1 2024

	YoY Chg	12-Mo. Forecast
<b>1.2M</b> San Francisco Metro Employment	▼	▲
<b>3.7%</b> San Francisco Metro Unemployment Rate	▲	▼
<b>3.8%</b> U.S. Unemployment Rate	▲	▲

Source: BLS, Moody's Analytics  
2024Q1 data are based on the latest available data

### ECONOMY: Employment Down but Persistent Growth in Capital Investment

In the first quarter, San Francisco's office market continued its journey toward post-pandemic recovery while keeping an eye on the future. This was demonstrated as numerous large tenants reaffirmed their commitment to staying in San Francisco, and an several new tenants entered the market, prompted by the rise of the artificial intelligence (AI) sector. Employment in the San Francisco metro division decreased by 13,933 jobs year-over-year (YOY) for a rate of -1.2%. Office jobs in the San Francisco metro division fell below the pre-pandemic peak by 1.5%, attributed to numerous announced layoffs since the beginning of 2023. Subsequently, the unemployment rate rose 110 basis points (bps) YOY with the most recent figure at 3.7%. However, venture capital (VC) funding into start-ups continued to push the economy forward as San Francisco-based companies saw capital investment surge for the second consecutive quarter, exceeding \$7.4 billion in the first three months of the year. San Francisco accounted for 17.9% of the total funding to U.S. companies, surpassing the quarterly average of 15.3% since 2015. Notably, this exceeded the combined investments in the next two leading metro-level markets, New York City and Boston. The generative AI vertical led with 61.2% of total venture capital funding for the quarter.

### SUPPLY: Market Availability on the Rise

The overall vacancy rate at the end of the first quarter of 2024 stood at 33.9%, marking an increase of 180 bps from the fourth quarter of 2023 and a substantial 810 bps from 25.8% one year ago. Direct vacancy rose to 21.3 million square feet (msf), up from 20.4 msf in the prior quarter, while San Francisco sublease vacancy surged to 7.8 msf, marking an 8.8% increase from last quarter and a significant jump from the 5.9 msf reported a year ago. The current market availability (all space being marketed whether vacant or still occupied) closed the quarter at 37.3%, signaling a continued upward trend in vacancy rates throughout the year. In the first quarter, over 800,000 square feet of available sublease space entered the market, predominantly concentrated in the CBD. The largest sublease block introduced was a 275,000 square foot space located in the South Financial District, made available by Charles Schwab. Leading the sublease availability is Meta's 398,533 square foot space at 181 Fremont Street. Meanwhile, the largest direct block available is 685,078 square feet at 50 Fremont Street, featuring a combination of current and future occupancy.

### PRICING: Rental Rates Continue Downward Trend

The overall average asking rent for San Francisco closed out the first quarter at \$69.22 per square foot (psf) on an annual gross basis, down 1.1% from the fourth quarter of 2023. Rents have reached their lowest point since the first quarter of 2016 and are anticipated to keep declining throughout the year. The overall asking rent for Class A properties in the CBD remained steady, closing the first quarter at \$73.22 psf, nearly unchanged from the previous quarter, and down 6.2% from one year ago. The overall direct asking rent for the Class A Tier 1 (trophy) CBD buildings stood firm at \$104.98 psf, largely consistent with the previous quarter. This indicates that rates are holding steady in the trophy buildings, particularly in the highest quality buildings' view spaces.

### SPACE DEMAND / DELIVERIES



### OVERALL VACANCY & ASKING RENT



# SAN FRANCISCO

## Office Q1 2024

### DEMAND: Leasing Remains Concentrated in Class A CBD Product

During the first quarter, the citywide total leasing activity (new leases and renewals) amounted to 1.4 msf. This figure represents a decline from the 2.3 msf recorded in the fourth quarter of 2023, primarily due to two large deals from AI companies, OpenAI and Anthropic. Leasing activity skewed heavily towards Class A product, accounting for 918,000 sf or 67.1% of the total. Renewals accounted for 38.3% of total leasing activity, primarily fueled by two significant transactions by KPMG in the South CBD and Figma in Union Square. These renewals reaffirmed tenants' commitment to maintaining their presence in San Francisco. The CBD market was in control regarding overall (all classes) leasing, with 962,930 sf or 70.4% of total activity. Despite the CBD's continued dominance, the influx of technology startups has propelled creative non-CBD buildings into becoming competitors against the traditionally popular CBD submarkets. Leasing activity in Class C properties accounted for only 4.4% of the total, this trend reflects a market that is increasingly trifurcated as tenants seek high-quality and differentiated spaces. The most substantial lease of the quarter was secured by Adyen, a leading Fintech company. They acquired 150,000 square feet at the previously occupied Pinterest offices located at 505 Brannan Street in the SoMa neighborhood. Pinterest listed this space on the market in early 2023 in its transition towards remote and hybrid work.

There were 203 active requirements totaling 5.7 msf, with approximately 46% falling within the technology sector. Tenants in the market decreased by 13.2% from 235 in the fourth quarter of 2023. However, the total square footage increased as several large tenants entered the market with their lease expirations approaching. Demand remained 23.0% below the 7.4 msf recorded just prior to the pandemic in early March 2020. Currently, there are over 650,000 square feet of demand expected to transact over the next few months, indicating that tenants are beginning to make decisions regarding their real estate requirements.

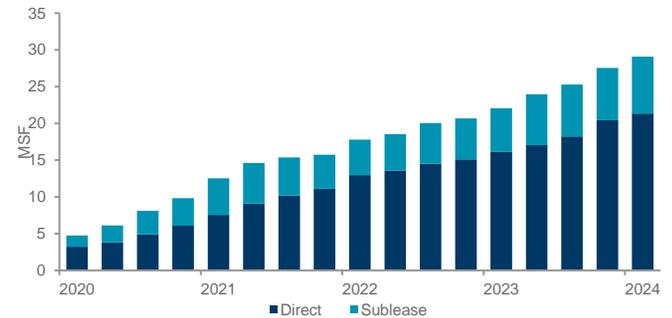
### SALES: More Transactions Anticipated in 2024

In the first quarter of 2024, there were two transactions recorded in San Francisco, closing for a total of \$126.9 million (M). The sales included 201 Spear Street (\$67.2M) in the South Financial District and 535 Pacific Avenue (\$59.7M) in Jackson Square. The 201 Spear Street transaction sold at roughly a 40% discount of its pre-pandemic value. Almost all sales observed in the past year have closed at significant discounts from previous evaluations, reflecting the prevailing conditions in the San Francisco office investment market. Anticipate a rise in investment transactions this year as the market capitalizes on the momentum from 2023, with an increasing number of investors looking to enter the market.

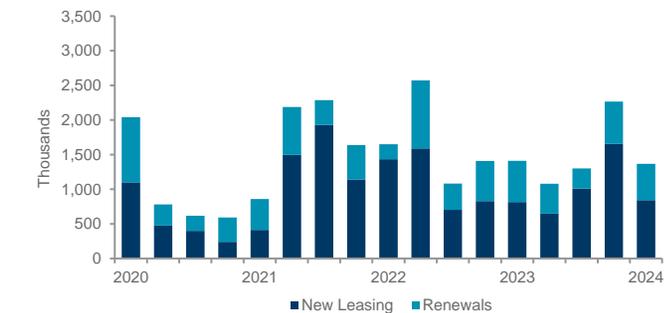
### OUTLOOK

- Rents are expected to decline further throughout the year as existing vacancies linger on the market for extended periods, coupled with the introduction of new availabilities.
- Both tenants and keen investors are capitalizing on the “reset” in the San Francisco office market, with increased activity anticipated for both groups in the second quarter of 2024.
- Vacancy rates are projected to rise in 2024 due to a substantial number of leases set to expire, coupled with ongoing trends of downsizing or right-sizing among tenants in the market.

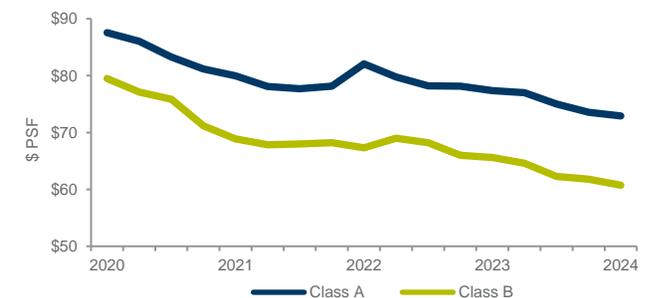
### Direct vs. Sublease Vacant Space Comparison



### Leasing Activity



### Overall Asking Rent Comparison



**MARKET STATISTICS**

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION	YTD OVERALL ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
North Financial District	26,866,662	1,314,384	7,701,310	33.6%	-259,972	-259,972	572,409	0	\$70.83	\$75.07
South Financial District	28,241,249	2,865,320	5,978,585	31.3%	-538,626	-538,626	390,521	0	\$71.37	\$71.67
<b>CBD TOTALS</b>	<b>55,107,911</b>	<b>4,179,704</b>	<b>13,679,895</b>	<b>32.4%</b>	<b>-798,598</b>	<b>-798,598</b>	<b>962,930</b>	<b>0</b>	<b>\$71.10</b>	<b>\$73.22</b>
Jackson Square	2,044,625	45,106	406,672	22.1%	6,527	6,527	22,178	0	\$61.69	\$75.74
Mid-Market	4,761,055	905,105	1,372,549	47.8%	-11,000	-11,000	37,102	0	\$59.14	\$69.78
Mission Bay	1,749,860	23,709	20,043	2.5%	0	0	0	0	\$88.81	\$88.81
North Waterfront	3,369,214	208,445	983,212	35.4%	-141,954	-141,954	23,407	0	\$70.50	\$69.31
Showplace Square/Potrero Hill	4,013,301	1,001,750	703,007	42.5%	-38,449	-38,449	9,349	0	\$63.28	\$66.01
SoMa	9,196,986	1,126,816	3,327,591	48.4%	-362,743	-362,743	201,691	0	\$69.78	\$76.38
The Presidio	1,030,627	67,251	48,946	11.3%	-30,395	-30,395	5,552	0	\$111.10	\$117.91
Third Street Corridor	406,482	0	0	0.0%	0	0	0	0	\$0.00	\$0.00
Union Square	3,296,853	191,806	668,582	26.1%	-129,211	-129,211	104,987	0	\$57.10	\$61.20
Van Ness Corridor	728,356	3,438	128,645	18.1%	-33,188	-33,188	0	0	\$41.82	\$45.77
<b>NON-CBD TOTALS</b>	<b>30,597,359</b>	<b>3,573,426</b>	<b>7,659,247</b>	<b>36.7%</b>	<b>-740,413</b>	<b>-740,413</b>	<b>404,266</b>	<b>0</b>	<b>\$65.88</b>	<b>\$72.21</b>
<b>SAN FRANCISCO TOTALS</b>	<b>85,705,270</b>	<b>7,753,130</b>	<b>21,339,142</b>	<b>33.9%</b>	<b>-1,539,011</b>	<b>-1,539,011</b>	<b>1,367,196</b>	<b>0</b>	<b>\$69.22</b>	<b>\$72.91</b>

\*Rental rates reflect full service asking

**KEY LEASE TRANSACTIONS Q1 2024**

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
501-505 Brannan Street	SoMa	Adyen	148,146	Sublease
55 Second Street	South Financial	KPMG	138,326	Renewal
760 Market Street	Union Square	Figma	97,647	Renewal
525 Market Street	South Financial	Goodwin Procter	58,991	New Lease/Downsize
315 Montgomery St	North Financial	Bank of America	42,000	Renewal/Downsize
1170 Market Street	Mid-Market	Felton Institute	37,102	New Lease
580 California Street	North Financial	Regus	28,302	Renewal
101 California Street	North Financial	Winston Strawn	25,883	New Lease/Downsize

**KEY SALE TRANSACTIONS Q1 2024**

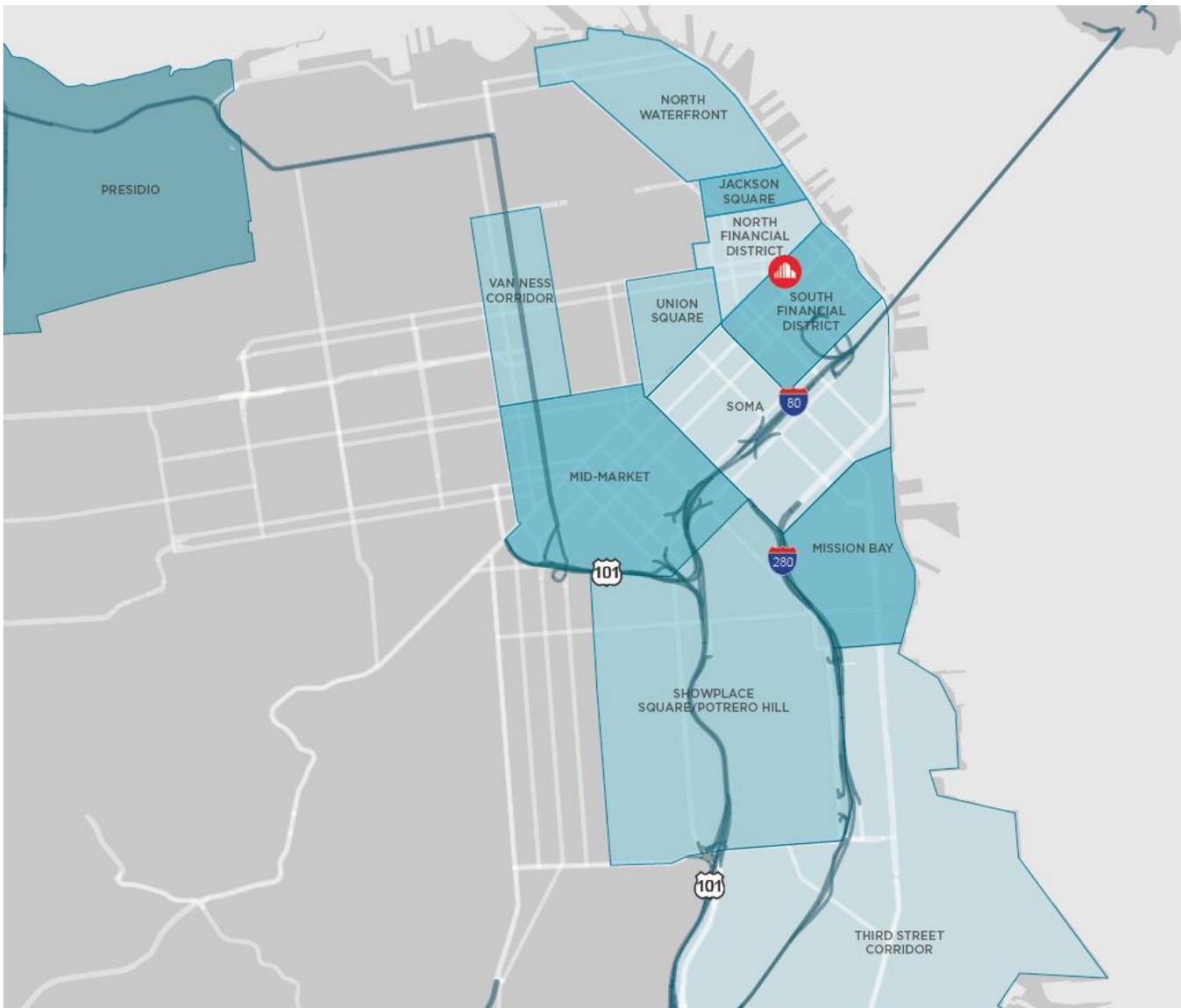
PROPERTY	SUBMARKET	SELLER/BUYER	SF	PRICE/\$ PSF
201 Spear Street	South Financial District	KBS Reit III / Strada Investment Group	254,958	\$67.2M/\$264
535 Pacific Ave	Jackson Square	Clint Reilly / LoveForm Inc.	39,586	\$59.7M/\$1,508

# SAN FRANCISCO

Office Q1 2024



## OFFICE SUBMARKETS



**ANNA BREHM**

Senior Research Analyst  
 Tel: +1 415 451 2427  
[anna.brehm@cushwake.com](mailto:anna.brehm@cushwake.com)

**KATE SU**

Research Analyst  
 Tel: +1 415 268 1380  
[kate.su@cushwake.com](mailto:kate.su@cushwake.com)

**JASON KARBELK**

Research Manager  
 Tel: +1 415 485 3742  
[jason.karbelk@cushwake.com](mailto:jason.karbelk@cushwake.com)

**CUSHMAN & WAKEFIELD**

425 Market St  
 Suite 2300  
 San Francisco, CA 94105

**A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION**

Cushman & Wakefield (NYSE: CWK) is a leading global commercial real estate services firm for property owners and occupiers with approximately 52,000 employees in nearly 400 offices and 60 countries. In 2023, the firm reported revenue of \$9.5 billion across its core services of property, facilities and project management, leasing, capital markets, and valuation and other services. It also receives numerous industry and business accolades for its award-winning culture and commitment to Diversity, Equity and Inclusion (DEI), sustainability and more. For additional information, visit [www.cushmanwakefield.com](http://www.cushmanwakefield.com).

*©2024 Cushman & Wakefield. All rights reserved. The information contained within this report is gathered from multiple sources believed to be reliable. The information may contain errors or omissions and is presented without any warranty or representations as to its accuracy.*