

San Francisco Office Market

Slow Return to Office

The second quarter of 2022 was punctuated by three lease transactions over 100,000 square feet, and leasing has steadily increased so far this year. At the same time, however, overall availability and vacancy increased to near-record levels. Absorption for the quarter was negative 790,843 square feet, for a total of negative 1.3 million square feet for the first half of the year. Vacancy is now at 16.3 million square feet or 18.4%, the highest rate in 19 years. Overall availability increased to 27.7% of the market, or 24.5 million square feet.

Overall asking rates dropped by 2.1% quarter-over-quarter to \$76.77/SF, which is a decrease of 1.5% year-over-year. Class A rates decreased to \$82.38/SF, a drop of 1.9% during the quarter and 1.3% year-over-year.

One bright note is that leasing in the second quarter of 2022 was more than 2 million square feet, a total not seen since the third quarter of 2019, and an increase of 42.9% over the first quarter of 2022. Leasing year-to-date has already surpassed total leasing for 2020, and it is 59.8% higher than the first half of 2021.

Notable leases during the quarter were Wells Fargo Bank's early renewal at 333 Market St. for 657,117 square feet. (Renewals do not count towards leasing totals.) In an off-market transaction,

Current Conditions

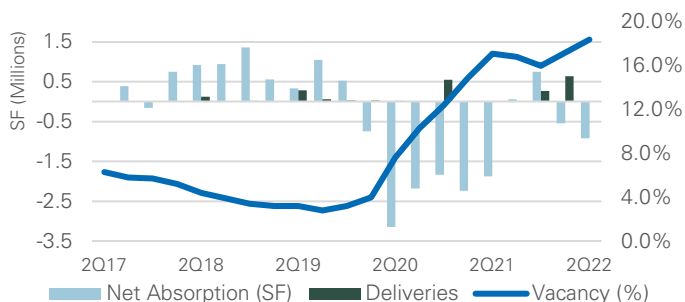
- Availability increased 240 basis points to 27.7%, or 24.5 million square feet.
- Overall asking rates dropped to \$76.77/SF and Class A rates dropped to \$82.38/SF – both rates were last seen in 2018.
- San Francisco's unemployment rate is 1.9%, the lowest in over 30 years.

Market Summary

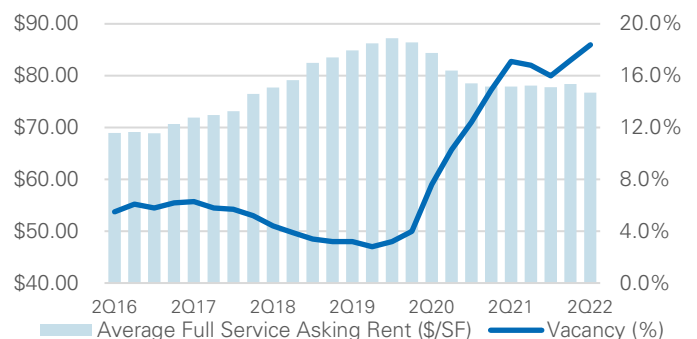
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	88.3M	88.0M	86.4M	↑
Vacancy Rate	18.4%	17.2%	17.1%	↔
Qtr Net Abs (SF)	-791K	-545K	-1.9M	↑
Avg FS Ask Rent/SF	\$76.77	\$78.39	\$77.90	↓
Under Const (SF)	445K	933.6K	1.1M	↓

Market Analysis

NET ABSORPTION V. NEW CONSTRUCTION & VACANCY RATE



VACANCY RATE (%) AND ASKING RENT (\$/SF ANNUAL, FSG)



RESEARCH Q2 2022

Google signed the largest sublease of the quarter, taking 295,333 square feet at 510 Townsend St. from Stripe. Ripple signed the largest new lease of the quarter, taking 126,000 square feet at 600 Battery St.

Sublease Space

At the end of the quarter, available sublease space was at 7.3 million square feet, or 8.4% of the total market. While this is an increase of 710,965 square feet from last quarter, it is a decrease of 918,638 square feet from one year ago. Overall sublease rents decreased by 2.3% during the second quarter of 2022 to \$63.47/SF, which is a year-over-year drop of 7.3%. San Francisco's largest sublease transaction of the quarter was Google's sublease at 510 Townsend St., an off-market transaction that did not impact sublease stats.

Investment Sales

The largest sale of the year so far was DivcoWest's acquisition of 550 Terry A. Francois Blvd in Mission Bay from The Gap for \$356.0 million, or \$1,131/SF. DivcoWest intends to convert the 314,826-square-foot building to life science. Additionally, DivcoWest sold 180 Townsend Street to The Sobrato

Organization for \$71.0 million, or \$1,726/SF. The 41,125-square-foot building is fully leased to Andreessen Horowitz until early 2030. Uncertainty about rental rates and tenant demand has cooled investor interest in San Francisco office buildings and deal volume has slowed as a result. The second and third quarters will bring additional insights into how investors view San Francisco with the potential sale of 455 Market Street and 550 California Street. 455 Market Street is a 374,200-square-foot building that is 78.0% leased and 550 California Street is a 355,412-square-foot building being sold by Wells Fargo that will be 100% vacant.

Economic Outlook

San Francisco's unemployment rate was 1.9% as of the end of May, the lowest rate in over three decades. This rate compares favorably to the State of California's unemployment rate of 4.3% and the national unemployment rate of 3.6% during the same period. Employees are still slow to return to the office. BART reported monthly ridership in June was 36.0% of pre-COVID; however, ridership has been climbing steadily and was just 20.0% of pre-COVID in June 2021.

Select Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Wells Fargo Bank	333 Market St	Financial District South	Renewal	657,117
Google Cloud	510 Townsend St	SOMA – West SOMA	Sublease	295,333
Ripple	600 Battery St	N Waterfront/Jackson Sq	Direct	126,000
Iconiq Capital	300 Mission St	Financial District South	Sublease	88,600
Lieff Cabraser	275 Battery St	Financial District North	Renewal	46,000
Prosper	221 Main St	Financial District South	Renewal	35,134
Homebridge	1035 Market St	SOMA - MidMarket	Renewal	22,352

Select Sales Transactions

Building	Market	Sale Price	\$/SF	Square Feet
550 Terry A Francois Blvd	SOMA – Mission Bay	\$356,000,000	\$1,131	314,826
180 Townsend St	SOMA – East SOMA	\$71,000,000	\$1,726	41,125
350 Brannan St	SOMA – East SOMA	\$11,590,000	\$702	16,500

Submarket Statistics – All Classes									
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Total Availability Rate	Total Availability (SF)	Qtr Net Absorption (SF)	YTD Net Absorption (SF)	Overall Ask Rent (Price/SF)	
San Francisco	88,337,981	445,000	18.4%	27.7%	24,471,714	(790,843)	(1,335,852)	\$76.77	
North Financial District	28,281,078	0	19.6%	27.3%	7,711,877	(499,319)	(694,450)	\$78.56	
South Financial District	27,709,180	0	13.2%	22.6%	6,263,396	(140,635)	(359,470)	\$81.10	
SOMA	21,235,993	445,000	23.4%	35.4%	7,507,823	(115,548)	(136,498)	\$74.67	
Union Square	3,728,840	0	19.9%	29.9%	1,114,278	(69,797)	(118,499)	\$64.09	
Van Ness / Civic Center	1,804,371	0	13.4%	18.9%	341,346	(14,422)	10,746	\$47.54	
N Waterfront / Jackson Sq	5,578,519	0	19.9%	27.5%	1,532,994	48,878	(37,681)	\$75.72	

Submarket Statistics – Class A									
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Total Availability Rate	Total Availability (SF)	Qtr Net Absorption (SF)	YTD Net Absorption (SF)	Overall Ask Rent (Price/SF)	
San Francisco	60,792,786	445,000	15.6%	24.4%	14,804,625	(465,735)	(578,003)	\$82.38	
North Financial District	21,655,509	0	16.8%	23.6%	5,100,885	(467,330)	(500,243)	\$81.48	
South Financial District	24,903,599	0	11.6%	20.6%	5,127,500	(100,159)	(142,445)	\$82.84	
SOMA	11,390,961	445,000	21.2%	32.2%	3,668,310	33,972	45,772	\$84.89	
Union Square	535,837	0	17.4%	43.4%	232,420	(41,709)	(41,709)	\$71.63	
Van Ness / Civic Center	342,693	0	7.5%	16.4%	56,219	7,775	6,207	\$60.48	
N Waterfront / Jackson Sq	1,964,187	0	20.3%	31.5%	619,291	101,716	54,415	\$83.01	

For more information:

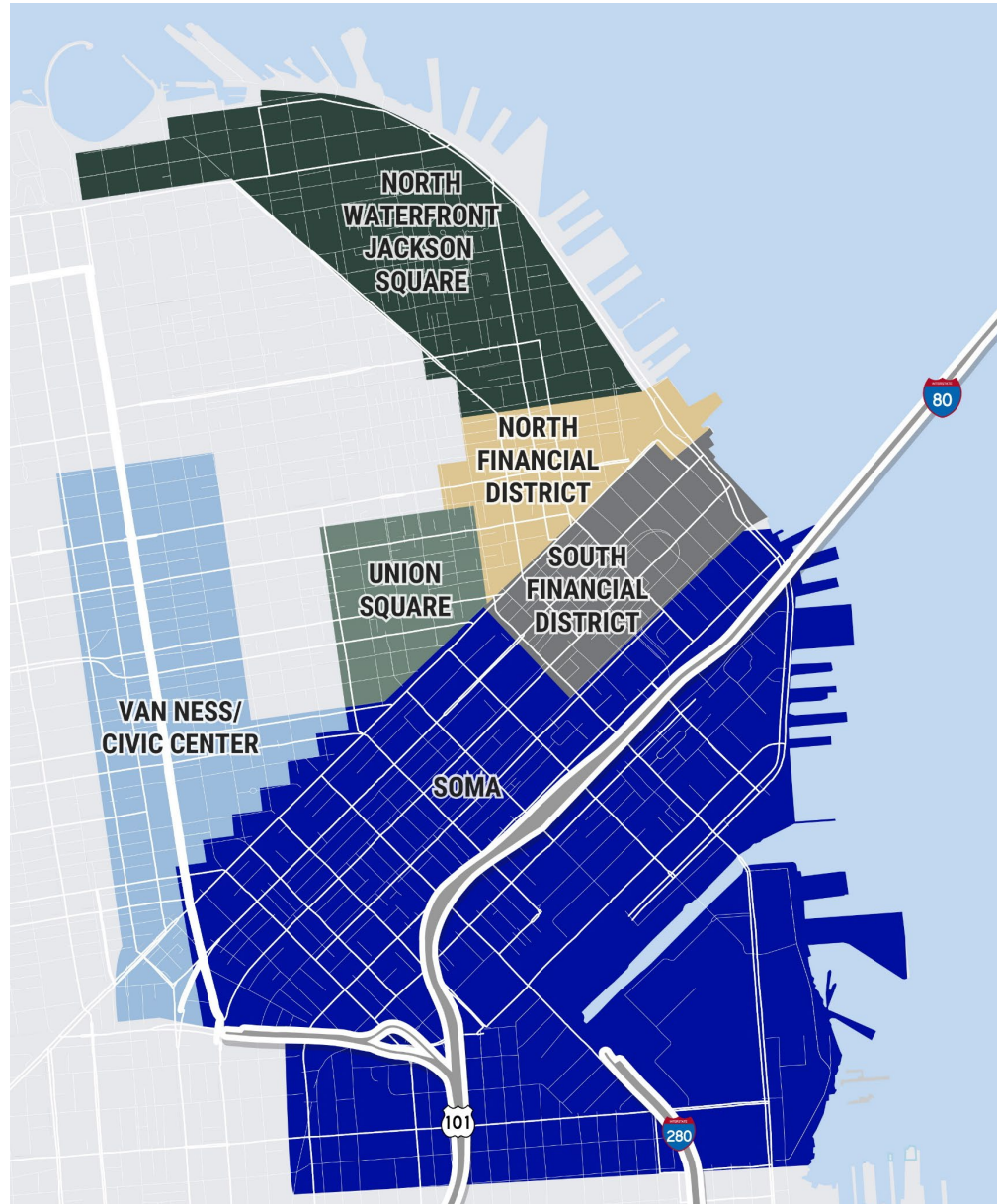
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