



San Francisco Office Market

Availability and Vacancy Continue to Increase

Overall availability and vacancy continued to rise during the fourth quarter of 2022, elevating to 32.1% and 22.1%, respectively. Overall availability is now at 28,404,642 square feet, while overall vacancy is now at 19,564,732 square feet. Total leasing for the quarter increased by 17.0% quarter over quarter to 809,381 square feet; however, this also represents a 31.0% decrease in total leasing compared to the fourth quarter of 2021. Only 55.0% of leased square footage during the quarter was for Class A space, compared with 76.0% in the third quarter of 2022. Total leasing for 2022 is 1,298,714 square feet. In the five years prior to the pandemic, annual leasing totals averaged 3,452,100 square feet.

Absorption for the fourth quarter of 2022 was negative 1,928,746 square feet. This is the highest level of negative absorption since the first quarter of 2021. Overall asking rates decreased 0.8% quarter over quarter and 4.7% year over year, to \$74.15/SF. Class A asking rates decreased only slightly quarter-over-quarter from \$80.14/SF to \$80.05/SF. While this represents only a 3.7% decline compared to the fourth quarter of 2021, it is anticipated that asking rents will experience significant declines during

Current Conditions

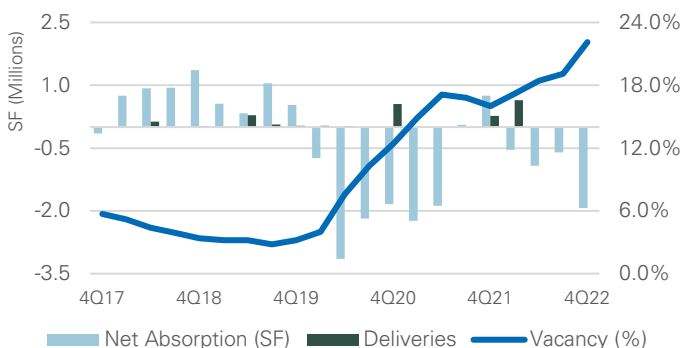
- Availability increased 190 basis points to 32.1%, or 28.4 million square feet.
- Overall asking rates dropped to \$74.15/SF and Class A rates dropped to \$80.05/SF.
- San Francisco's unemployment rate remained low at 2.8%.

Market Summary

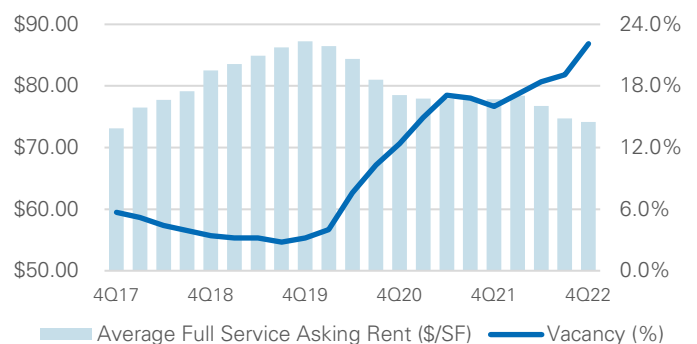
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	88.5M	88.5M	87.4M	↑
Vacancy Rate	22.1%	19.1%	16.0%	↑
Qtr Net Abs (SF)	-1.9M	-603K	324K	↓
Avg FS Ask Rent/SF	\$74.15	\$74.73	\$77.82	↓
Under Const (SF)	710K	710K	772K	↓

Market Analysis

NET ABSORPTION V. NEW CONSTRUCTION & VACANCY RATE



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



RESEARCH Q4 2022

2023-2024 as landlords are forced by liquidity constraints to trade elevated concession packages for lower rents. Several tenants signed significant renewals during the fourth quarter of 2022 (renewals do not count towards leasing totals), including First Republic Bank's renewal/expansion of 150,000 square feet at 388 Market St. and Databrick's renewal of 57,625 square feet at 160 Spear St.

Sublease Space

At the end of 2022, available sublease space was at 8.5 million square feet, or 9.6% of the total market, an increase of over 665,000 square feet from the third quarter of 2022. Overall sublease rents decreased during the fourth quarter of 2022 to \$59.29/SF, which is a year-over-year drop of 10.3%. The largest sublease transaction of the quarter was Persona Computing's 25,000-square-foot sublease at 353 Sacramento St.

Investment Sales

Uncertainty surrounding tenant demand, return-to-office initiatives and the lending environment has slowed office investment significantly. The largest sale of the quarter on a square-footage basis was SC Builders' purchase of 19,250 square feet at 701 Sutter St. for \$8.35 million, or \$433/SF. The Class C office property, located near Union Square, was 61.0% occupied, with 7,500 square feet of vacant and available office space at the time of purchase. SC Builders also made the largest purchase on a price-per-square-foot basis during the quarter with its purchase

of 6,000 square feet at 431 Jessie St. for just under \$4.4 million, or \$728/SF. The property, which was originally built in 1912 and fully renovated in 2021, was purchased as part of a 1031 exchange. The largest sale on a sale-price basis was a local union's purchase of 15,678 square feet at 1155 Mission St. for \$9.5 million, or \$606/SF. The property, located south of Market, was purchased with the intent of being the union's new headquarters.

Some pricing discovery should occur in the first half of 2023 as 550 California St., 180 Howard St., One Harrison and 350 California St. are rumored to be going on the market for sale. Each of these buildings is owned by a user (Wells Fargo, State Bar of California, The Gap and Union Bank, respectively).

Economic Outlook

Employees are still slowly returning to the office. Per Kastle Systems' weekly occupancy report, average occupancy in San Francisco was at 42.5% of pre-pandemic levels during the week of December 14, 2022. During the peak days of the week (Tuesday, Wednesday and Thursday), San Francisco office occupancy was 49.2% of pre-pandemic levels, which was higher than Philadelphia's 48.3% and San Jose's 41.7%. On Fridays, typically the lowest occupancy of the week, San Francisco's occupancy was 29.2% of pre-pandemic levels, which was higher than Chicago's 28.5%, San Jose's 27.3% and New York's 27.0%.

Select Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
First Republic Bank	388 Market St	North Financial District	Renewal/Expansion	150,000
Sigma Computing	116 New Montgomery St	South Financial District	Extension/Expansion	82,597
Databricks	160 Spear St	South Financial District	Renewal	57,625
Bank of the West	180 Montgomery St	North Financial District	Renewal	49,399
Reddit	303 2nd Street	SOMA	Direct	47,872
Federal Communications Comm.	44 Montgomery St	North Financial District	Direct	47,800
Gensler	220 Montgomery St	North Financial District	Direct	45,544

Select Sales Transactions

Building	Market	Sale Price	\$/SF	Square Feet
701 Sutter St.	Union Square	\$ 8,350,000.00	\$433/SF	19,250
431 Jessie St.	SOMA	\$ 4,368,000.00	\$728/SF	6,000
1155 Mission St.	SOMA	\$ 9,500,000.00	\$605/SF	15,678

Submarket Statistics – All Classes								
	Total Inventory (SF)	Under Const. (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	88,449,298	710,000	22.1%	32.1%	26,755,598	(1,928,746)	(4,574,754)	\$74.15
North Financial District	28,281,078	0	23.9%	31.2%	8,186,231	(735,157)	(1,905,730)	\$75.30
South Financial District	27,713,767	0	17.6%	26.7%	7,089,331	(604,942)	(1,558,558)	\$78.80
SOMA	21,338,876	420,000	26.5%	42.2%	8,239,087	(510,814)	(764,594)	\$72.15
Union Square	3,728,840	0	21.6%	28.0%	1,097,797	3,020	(183,505)	\$61.57
Van Ness / Civic Center	1,804,135	290,000	13.5%	20.7%	357,842	(6,537)	8,233	\$45.63
N Waterfront / Jackson Sq	5,582,602	0	22.2%	31.6%	1,785,310	(74,316)	(170,600)	\$68.83

Submarket Statistics – Class A								
	Total Inventory (SF)	Under Const. (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	60,955,373	710,000	16.1%	26.8%	16,334,497	(367,107)	(2,835,410)	\$80.05
North Financial District	21,655,509	0	18.5%	25.4%	5,500,197	(375,758)	(1,377,922)	\$79.43
South Financial District	24,908,186	0	11.8%	24.0%	5,971,424	(48,787)	(1,281,887)	\$80.64
SOMA	11,548,961	420,000	21.3%	34.3%	3,960,171	(43,186)	(123,745)	\$81.82
Union Square	535,837	0	18.9%	35.7%	191,158	(8,175)	(74,401)	\$67.50
Van Ness / Civic Center	342,693	290,000	8.0%	16.4%	56,122	(1,534)	3,504	\$54.47
N Waterfront / Jackson Sq	1,964,187	0	14.6%	33.4%	655,425	110,333	19,041	\$77.15

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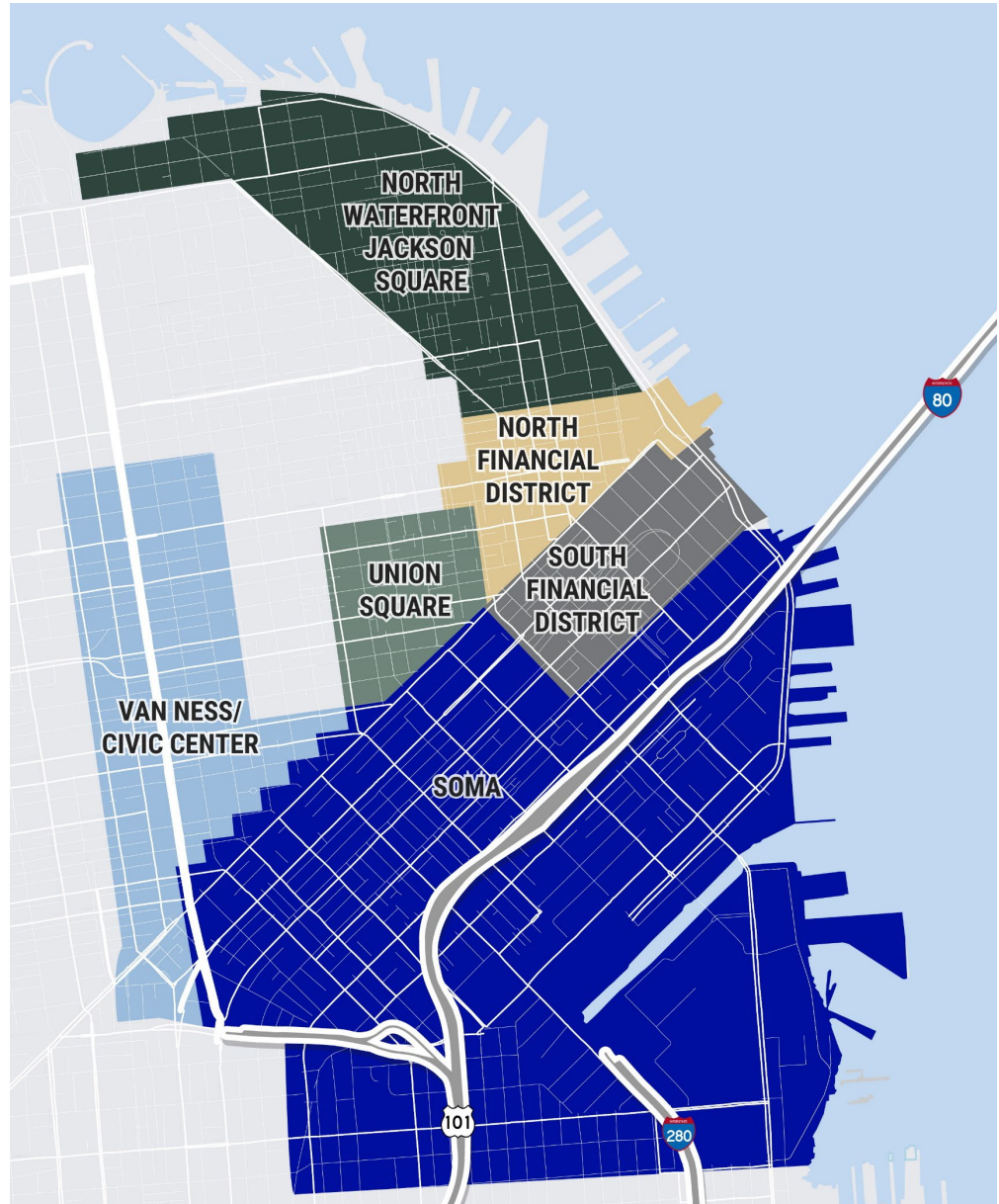
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